

March 21, 2018

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307

Attention: Vicente Graciano P. Felizmenio, Jr.
Director, Markets and Securities Regulation Department

THE PHILIPPINE STOCK EXCHANGE, INC.

6th Floor, PSE Tower, 28th Street corner 5th Avenue, BGC, Taguig City

Attention: Janet Encarnacion
Head, Disclosure Department

RE: PRELIMINARY INFORMATION STATEMENT

Gentlemen:

Please see attached, the Preliminary Information Statement (SEC Form 20 - IS) of Metro Retail Stores Group, Inc. ("MRSGI")

The Annual Stockholders' Meeting of MRSGI will be held on May 4, 2018 at 7:30 am, at the Mandani Bay Showroom, F.E Zuellig Avenue, Mandaue City, Cebu.

Very truly yours,



ATTY. VINCENT E. TOMANENG
Corporate Secretary

COVER SHEET

SEC Registration Number

C S 2 0 0 3 1 5 8 7 7

COMPANY NAME

M	E	T	R	O	R	E	T	A	I	L	S	T	O	R	E	S	G	R	O	U	P	,	I	N	C

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

V	I	C	S	A	L	B	U	I	L	D	I	N	G	,	C	O	R	N	E	R	O	F	C	.	D	
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Form Type

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Department requiring the report

M	S	R	D
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Secondary License Type, If Applicable

N	/	A	
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Preliminary

COMPANY INFORMATION

Company's Email Address info@metroretail.com.ph	Company's Telephone Number (032) 236-8390	Mobile Number N/A
No. of Stockholders 21	Annual Meeting (Month / Day) First Friday of May	Fiscal Year (Month / Day) 12/31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person Vincent E. Tomaneng Corporate Secretary	Email Address vince.tomaneng@metroretail.com.ph	Telephone Number/s (032) 236 7793	Mobile Number N/A
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CONTACT PERSON'S ADDRESS

Vicsal Bldg., Corner of C.D.Seno & W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SECRETARY'S CERTIFICATE

I, ATTY. VINCENT E. TOMANENG of legal age, Filipino, married, and with office address at the Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu, after having been duly sworn in accordance with law, hereby depose and state that:

- 1. I am the duly elected, qualified, and incumbent Corporate Secretary of METRO RETAIL STORES GROUP, INC. (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at the Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu.
2. As such Corporate Secretary, I am in custody of the corporate books and records of the Corporation, including the minutes of meetings of its Board of Directors and Stockholders.
3. I hereby certify that no Director or Officer of the Corporation is connected with any government agency or instrumentality.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 21 day of March 2018 in Cebu City.

MAR 21 2018

Handwritten signature of Vincent E. Tomaneng

ATTY. VINCENT E. TOMANENG
Corporate Secretary

BEFORE ME, a Notary Public for and in Cebu City, this 21 day of March 2018, personally appeared the following:

MAR 21, 2018

Table with 3 columns: Affiant, Type of ID, and Competent Evidence of Identity (Passport Number and Expiry Date). Row 1: Vincent E. Tomaneng, Passport, EB9485745/October 29, 2018

who represented to me that he executed the foregoing document consisting of one (1) page for the purposes stated therein and acknowledged to me that the same is his free and voluntary act and deed and of the corporation he represents.

Doc. No. 267 ;
Page No. 54 ;
Book No. XXX ;
Series of 2018.

Handwritten signature of Aileen P. Lazala-Garrote

AILEEN P. LAZALA-GARROTE
Notarial Commission No. 049-12
Notary Public for Cebu City,
Cancer City and San Fernando, Cebu
Until December 31, 2019
Roll of Attorneys No. 46647
PTR No. 170311 / Cebu Province / Dec. 14, 2017
ISPO.R. No. 1085264 / Cebu Province / Nov. 3, 2017
MCLB Compliance No. V-0015079 / March 8, 2018
Rm. M03 Aniceta Bldg., Mezzanine
Osmelia Blvd., Capitol Site, Cebu City

Handwritten initials and signature

**NOTICE OF ANNUAL MEETING OF THE STOCKHOLDERS
OF
METRO RETAIL STORES GROUP, INC.**

Please take notice that the 2018 Annual Meeting of the Stockholders of Metro Retail Stores Group, Inc. (the "Company"), will be held on the First Friday of May, May 4, 2018, at 7:30 a.m. at the Mandani Bay Showroom, F.E. Zuellig Avenue, Mandaue City, Cebu, with the following program:

7:30 – 8:30 am	Registration
8:30 – 10:00am	Annual Stockholders' Meeting Proper

The Agenda for the Annual Stockholders' Meeting shall be as follows:

1. Call to Order
2. Proof of notice of the meeting and existence of quorum
3. Chairman's Message
4. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on May 5, 2017
5. President's Message
6. Management Presentations and Approval of the Annual Report and the Audited Financial Statements for CY 2017
7. Appointment of External Auditor
8. General ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last annual stockholders' meeting up to the date of this meeting
9. Election of Board of Directors
10. Consideration of such other matters as may properly come during the meeting
11. Adjournment

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange on April 2, 2018 as the Record Date for the determination of stockholders entitled to notice of and vote at such meeting and any adjournment thereof.

For convenience in registering your attendance, please bring a government issued identification card with photograph such as passport, driver's license, SSS or GSIS identification card. Registration starts at 7:30 a.m. and will close at exactly 8:30 a.m.

Proxies, in the form provided by the Company, must be submitted to the Company's Corporate Secretary, at the Principal Office of the Company not later than April 19, 2018. The proxies shall be validated on April 25, 2018 at the Principal Office of the Company. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting. **WE ARE NOT, HOWEVER, SOLICITING PROXIES.**

February 28, 2018, Mandaue City.

For the Board of Directors,

SGD.
ATTY. VINCENT E. TOMANENG
Corporate Secretary

PROXY

The undersigned stockholder of Metro Retail Stores Group, Inc. (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as my proxy at the 2018 Annual Stockholders' Meeting of the Company, to be held at the Mandani Bay Showroom, F.E. Zuellig Avenue, Mandaue City, Cebu, on Friday, May 4, 2018 at 8:30 a.m. and at any of the adjournments thereof for the purpose of acting on the following matters:

	Proposal	Approve	Disapprove	Abstain
I	Approval of the Minutes of the Annual Meeting of the Stockholders held on May 5, 2017			
II	Approval of the Annual Report and the Audited Financial Statements for CY 2017			
III	Appointment of SGV&Co. as the External Auditor for 2018			
IV	Ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last annual stockholders' meeting up to the date of this meeting			

V	Election of Directors	Number of Votes ¹
	1. Frank S. Gaisano	
	2. Arthur Emmanuel	
	3. Margaret G. Ang	
	4. Jack S. Gaisano	
	5. Edward S. Gaisano	
	6. Guillermo L. Parayno, Jr.	
	7. Ricardo Nicanor N. Jacinto	

Number of Shares Held

Signature of Stockholder/ Authorized Signatory

Date

Printed name of Stockholder

This proxy, when properly executed, will be voted in the manner as directed herein by the stockholder(s). If no direction is made, this proxy will be voted for the election of all nominees and for the approval of all the matters stated above and for such matters as may properly come before the meeting in the manner described in the Information Statement and/or as recommended by Management or the Board of Directors.

A stockholder giving a proxy has the power to revoke it at any time before the right granted is exercised. A proxy is also considered revoked if the stockholder attends the meeting in person and expressed his intention to vote in person.

¹ Stockholders shall have the right to vote the number of shares of stock standing, on record date, in his own name on the stock and transfer book of the Company; and such shareholder may vote such number of shares for as many individuals as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided that, the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter: **METRO RETAIL STORES GROUP, INC.**
("MRSGI" or the Company)

3. Province, country or other jurisdiction of incorporation or organization: **Cebu City, Philippines**

4. SEC Identification Number: **CS 200315877**

5. BIR Tax Identification Code: **226-527-915**

6. Address of principal office and Postal Code: **Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu 6014**

7. Registrant's telephone number, including area code: **(032) 236-8390**

8. Date, time and place of the meeting of security holders: **May 4, 2018 7:30 a.m.; Mandani Bay Showroom, F.E. Zuellig Avenue, Mandaue City, Cebu, Philippines.**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **April 12, 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
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Common Stock, P1.00 per share par value	3,429,375,000
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11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes No

MRSGI's common stock is listed on the Philippine Stock Exchange.

A. GENERAL INFORMATION

Date, time and place of meeting of security holders.

Date, Time and Place of Meeting

May 4, 2018

7:30 a.m.

Mandani Bay Showroom, F.E. Zuellig Avenue, Mandaue City, Cebu

Complete Mailing Address of Principal Office

Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu 6014

Approximate date on which copies of the Information Statement are first to be sent or given to security holders

April 12, 2018

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

The report attached as Annex “A” to this Information Statement (SEC Form 20-IS) is the management report to stockholders, including the Management’s Discussion and Analysis, market price of shares and dividends and other data related to the Company’s financial information required under Securities Regulation Code Rule 20 to accompany the Information Statement and is hereinafter referred to as the “Management Report”.

Dissenters' Right of Appraisal

Any stockholder of the Company may exercise his appraisal right against the proposed actions which qualify as instances giving rise to the exercise of such right pursuant to and subject to the compliance with the requirements and procedures set forth under Title X of the Corporation Code of the Philippines (the “Corporation Code”).

Consistent with Section 81 of the Corporation Code, any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case of any amendment to the articles of incorporation which has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;
3. In case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the Company within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares. Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the Company shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day

prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment; and provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

There are no matters to be acted upon by the stockholders at the Annual Meeting of the Stockholders to be held on May 4, 2018 which would require the exercise of the appraisal right.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

None of the following persons have any substantial interest, direct or indirect, in any matter to be acted upon other than election to office:

- a. Directors or Officers of the Company at anytime since the beginning of the last fiscal year;
- b. Nominees for election as directors of the Company;
- c. Associates of any of the foregoing persons.

No director or nominee for election as director has informed the Company of his opposition to any matter to be acted upon at the annual stockholders meeting.

B. CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

1. The Company has 3,429,375,000 outstanding shares as of February 28, 2018. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.
2. All stockholders of record as of April 2, 2018 are entitled to notice and to vote at the Company's Annual Meeting.
3. Article II, Section 8 of the Fourth Amended By-Laws of the Company states that for the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof or to receive payment of any dividend, the Board of Directors may provide that the stock and transfer books be closed for ten (10) working days immediately preceding such meeting.

Directors and Executive Officers

Election of Directors

Section 2, Article III of the Company's Fourth Amended By-Laws states that the Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified. During the election of the members of the Board of Directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, on record date, in his own name on the stock and transfer book of the Company; and such shareholder may vote such number of shares for as many individuals as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided that, the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected.

In case a shareholder intends to attend the 2018 Annual Stockholders Meeting and vote by proxy, the proxy must be submitted to the Company's Corporate Secretary, at the Principal Office of the Company not later than April 19, 2018. The proxies submitted and received on or before April 19, 2018 shall be validated on April 25, 2018 at the Principal Office of the Company. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised during the Annual Stockholders Meeting.

Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners of more than 5 % of the Company's voting securities as of February 28, 2018

As of February 28, 2018, the Company knows no one who beneficially owns in excess of 5% of the Company's common stock except set forth in the table below:

Title of Class	Name and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% of Total Outstanding
Common	Vicsal Development Corporation Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City (stockholder)	Same as record owner	Filipino	2,489,800,000	72.60%
Common	PCD Nominee Corporation 37 th Floor, Tower 1, the Enterprise Center, 6766 Ayala Avenue corner of Paseo de Roxas 1226 Makati City, Philippines	PDTC Participants and their clients	Filipino	751,179,110	21.90%
Common	PCD Nominee Corporation 37 th Floor, Tower 1, the Enterprise Center, 6766 Ayala Avenue corner of Paseo de Roxas 1226 Makati City, Philippines	PDTC Participants and their clients	Non-Filipino	163,424,912	4.77%

Notes:

1. Vicsal Development Corporation (VDC) is the principal stockholder of the Company. As of February 28, 2018, VDC holds a total of 2,489,800,000 shares of the Company. The Board of Directors of VDC has the power to decide how the VDC shares in the Company are to be voted. "Any One" of the following directors/officers of VDC is authorized to vote the shares of VDC in the Company:
 - a. Ms. Margaret G. Ang;
 - b. Mr. Jack S. Gaisano;
 - c. Dr. Edward S. Gaisano;
 - d. Mr. Frank S. Gaisano; and
 - e. Mr. Aljim C. Jamandre
2. PCD Nominee Corporation is the registered owner of the shares in the books of the Company's stock and transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce a scripless or book-entry trading in the Philippines. Under the current PDTC

system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.

3. None of the Top 100 PDTC Participants - Filipino, hold 5% or more of the Company's outstanding capital stock as of February 28, 2018.

4. None of the Top 100 PDTC Participants – Foreign hold 5% or more of the Company's outstanding capital stock as of February 28, 2018.

Security Ownership of Management of the Company's voting securities as of February 28, 2018

Title of Class	Name of Beneficial Owner	Position	Amount and Nature of Beneficial Ownership		Citizenship	% to Total Outstanding
			Direct	Indirect		
Common	Frank S. Gaisano	Chairman and Chief Executive Officer	2	0	Filipino	0
Common	Edward S. Gaisano	Director	75,002	0	Filipino	0
Common	Margaret G. Ang	Director	2	3,722,000	Filipino	.10%
Common	Jack S. Gaisano	Director	2	0	Filipino	0
Common	Arthur Emmanuel	President and Chief Operating Officer	1,500,001	0	American	.04%
Common	Ricardo Nicanor N. Jacinto	Independent Director	500,001	0	Filipino	.01%
Common	Guillermo L. Parayno, Jr.	Independent Director	1	0	Filipino	0
Common	Joselito G. Orense	Treasurer/ Chief Finance Officer	0	0	Filipino	0
Common	Vincent E. Tomaneng	Corporate Secretary	0	0	Filipino	0
Common	Tara B. Perez-Retuya	Asst. Corporate Secretary and Compliance Officer	0	0	Filipino	0

Shares owned by foreigners

The total number of common shares owned by foreigners as of February 28, 2018 is 163,424,913 shares.

Voting Trust Holders of 5% or more – as of February 28, 2018

There are no persons holding more than 5% of common shares under a voting trust or similar agreement.

Changes in Control

As of February 28, 2018, there has been no change in the control of the Company, and there are no arrangements which may result in a change in control of the Company.

Directors and Executive Officers

Board of Directors

Currently, the Board consists of seven (7) members, of which two (2) are independent directors.

The Table below sets forth certain information regarding the members of our Board:

Name	Age	Nationality	Position
1. Frank S. Gaisano	60	Filipino	Chairman
2. Jack S. Gaisano	64	Filipino	Director
3. Edward S. Gaisano	62	Filipino	Director
4. Margaret G. Ang	66	Filipino	Director
5. Arthur Emmanuel	64	American	Director
6. Guillermo L. Parayno, Jr.	70	Filipino	Independent Director
7. Ricardo Nicanor N. Jacinto	57	Filipino	Independent Director

Messrs. Frank S. Gaisano, Jack S. Gaisano, Edward S. Gaisano, and Ms. Margaret G. Ang have served their respective offices since the incorporation of the Company on August 2003. Mr. Arthur Emmanuel was elected as Director of the Company on May 1, 2015, while the independent directors, Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, were elected on July 16 and 27, 2015, respectively. All seven (7) Board Members were re-elected to the Board during the last Annual Stockholders' Meeting held on May 5, 2017.

There are no other directors who resigned or declined to stand for re-election to the board of directors since the date of the last annual meeting of the stockholders for any reason whatsoever.

Board Of Directors – Brief Description and Experience for the Last Five (5) Years

Frank S. Gaisano, 60, has been the Company's Chairman and Chief Executive Officer since 2012 and has served on the board of directors since 2003. He holds a Bachelor of Science degree in Civil Engineering, which he received from the Cebu Institute of Technology in 1978, and is a board-certified civil engineer. Presently, Mr. Gaisano also serves as Chairman of AB Capital & Investment Corporation and Pacific Mall Corporation. He is also a Director of Vicsal Development Corporation, Filipino Fund, Inc., Taft Property Venture Development Corporation, Taft Punta Engaño Property Inc. and HTLand, Inc. Additionally, he is a Trustee of Vicsal Foundation, Incorporated.

Jack S. Gaisano, 64, has been a Director of the Company since 2003. He received a Bachelor of Science degree in Chemical Engineering from the University of San Carlos, Cebu City in 1976 and is a board-certified chemical engineer. He currently also serves as Chairman and President of Taft Property Venture Development Corporation and Midland Development Corporation, and Chairman of Vsec.Com. Inc. He is the President and Vice-Chairman of HTLand, Inc. He is also a Director of Vicsal Development Corporation and Pacific Mall Corporation.

Edward S. Gaisano, 62, has served as a Director of the Company since 2003. He has been a board-certified Doctor of Medicine since 1980. Mr. Gaisano is currently Chairman and President of Vicsal Development Corporation. He is also Chairman of Wealth Development Bank Corporation, Hyundai Alabang, Inc. and Hyundai Southern Mindanao, Inc. He is a Director of Taft Property Venture Development Corporation and is the President of Pacific Mall Corporation and former President of the Cebu Chamber of Commerce & Industry. Additionally, Mr. Gaisano is a Trustee of Vicsal Foundation, Incorporated and Habitat for Humanity Philippines, and a member of the Society of Fellows of the Institute of Corporate Directors.

Margaret G. Ang, 66, has served as Director of the Company since 2003 and its Corporate Secretary until July 26, 2015. Ms. Ang received a Bachelor of Science degree, major in Accounting (1974, Cum Laude), from the University of San Carlos, Cebu City and is a certified public accountant. She currently serves as Director and Corporate Secretary of Vicsal Development Corporation, Taft Property Venture Development Corporation and Vicsal Securities & Stock Brokerage, Inc. Ms. Ang is also the President of Filipino Fund, Inc. and of Grand Holidays, Inc. Additionally, she serves as a director of Manila Water Consortium, Inc. and as a Trustee of Vicsal Foundation, Incorporated.

Arthur Emmanuel, 64, serves as Director and current President and Chief Operating Officer of the Company. He served as a Consultant for Merchandising and Operations of Vicsal Development Corporation from 2010 to 2012. He has accumulated 38 years of experience in retail operations, merchandising, global procurement, product development and logistics. Mr. Emmanuel previously served in a number of senior management positions with Wal-Mart Stores, Inc., having most recently served as Senior Vice-President, Sourcing/Retail Import Development Organization in China.

Ricardo Nicanor N. Jacinto, 57, was elected as an independent Director of the Company on July 27, 2015. He obtained his Master's Degree in Business Administration from Harvard University in 1986. Mr. Jacinto is a Director of SBS Philippines Corporation and the Treasurer/Trustee of the Judicial Reform Initiative. Mr. Jacinto previously served as Executive Director of Habitat for Humanity Philippines and CEO of the Institute of Corporate Directors.

Guillermo L. Parayno, Jr., 70, was elected as an independent Director of the Company on July 16, 2015. Mr. Parayno is also the Chairman and President of E-Konek Pilipinas, Inc. and the Director and Vice Chairman of Philippine Veterans Bank. He is also President of the Parayno Consultancy Services on logistics and distribution, customs, information, technology and taxation and the Chairman & President of Bagong Silang Farms, Inc. Previously, Mr. Parayno led several Asian Development Bank Missions relating to Trade Facilitation and served as Commissioner of Customs from 1992 to 1998, and Commissioner of the Bureau of Internal Revenue from 2002-2005.

Officers

The following are the names, ages, positions and citizenships of the incumbent officers of the Company:

Name	Age	Nationality	Position
Frank S. Gaisano	60	Filipino	Chairman & Chief Executive Officer
Arthur Emmanuel	64	American	President & Chief Operating Officer
Joselito G. Orense	52	Filipino	Treasurer & Chief Financial Officer
Vincent E. Tomaneng	50	Filipino	Corporate Secretary and Chief Legal Counsel

Tara Tsarina B. Perez- 34 Filipino
Retuya

Assistant Corporate Secretary & Compliance
Officer

Brief Description - Officers

Joselito G. Orense, 52, was appointed as the Treasurer & Chief Financial Officer on March 16, 2016. He is a Certified Public Accountant. He earned his Bachelor of Science in Business Administration and Accountancy (1987, Cum Laude) from the University of the Philippines, Diliman and obtained his Master's degree in Business Management from the Asian Institute of Management in 1991. Prior to joining the Company in November 2015 as Deputy CFO, he has served as Chief Financial Officer of All Value Holdings Corp. (2012 to 2015), Adidas Philippines (2004 to 2010), and Golden Arches Development Corporation (Director of Accounting, and CFO, 1996 to 2002).

Vincent E. Tomaneng, 50, was appointed as the Corporate Secretary on July 27, 2015. He earned his Bachelor of Laws (1994) and Bachelor of Science in Accountancy (1988, Magna Cum Laude) degrees from the University of San Carlos in Cebu City. He is presently the Group General Counsel of Vicsal Development Corporation and the Metro Gaisano Group of Companies. Prior to joining Vicsal and the Metro Gaisano Group in May 2003, he has worked with Sycip Salazar Hernandez & Gatmaitan Law Offices as a Senior Associate (1997 to 2003) and with Sycip Gorres Velayo & Co., CPA's as a Tax Supervisor (1988 to 1996). He is presently the Director and Corporate Secretary of Filipino Fund, Inc. from 2014, a Director of Pacific Mall Corporation from 2010, and a Trustee of Vicsal Foundation, Incorporated since 2017.

Tara Tsarina B. Perez-Retuya, 34, was appointed as the Assistant Corporate Secretary and Compliance Officer on November 7, 2017, and assumed the position on November 30, 2017. She earned her Bachelor of Science in Psychology (2005, Cum Laude) and Bachelor of Laws (2010) degrees from the University of San Carlos in Cebu City. Prior to joining the Company, she has served as Associate General Counsel of Aboitiz Equity Ventures, Inc. (2010-2012), and Securities Counsel of the Securities and Exchange Commission (2012-2017).

Committees

The incumbent members of the Company's Nomination and Compensation Committee are:

1. Mr. Frank S. Gaisano – Chairman
2. Ms. Margaret G. Ang
3. Mr. Ricardo Nicanor N. Jacinto

The incumbent members of the Company's Governance Committee are:

1. Edward S. Gaisano – Chairman
2. Margaret G. Ang
3. Guillermo L. Parayno, Jr.
4. Arthur Emmanuel

The incumbent members of the Company's Audit and Risk Management Committee are:

1. Guillermo L. Parayno, Jr. – Chairman
2. Margaret G. Ang
3. Ricardo Nicanor N. Jacinto

The incumbent members of the Company's Investment Committee are:

1. Margaret G. Ang– Chairman
2. Jack S. Gaisano
3. Frank S. Gaisano
4. Ricardo Nicanor N. Jacinto

Information Required by the SEC under SRC Rule 38 on the nomination and election of Independent Directors.

In accordance with SEC Memorandum Circular No. 19, series of 2016, the Company filed its Revised Manual on Corporate Governance last May 30, 2017, which substantially complied with the requirements under SRC Rule 38, as amended, and the Revised Code of Corporate Governance for Publicly Listed Companies. Under the Revised Manual on Corporate Governance, the following criteria and guidelines shall be observed in the pre-screening, short-listing, and nomination of Independent Directors:

A. Independent Director – Defined

An independent director is a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

B. Qualifications

An independent director is a person who:

- a. Is not a director, senior officer, employee, or substantial stockholder of the Company or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing);
- b. Is not a relative of any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- c. Is not acting as a nominee or representative of a substantial shareholder of the Company, any of its related companies or any of its substantial shareholders;
- d. Has not been employed in any executive capacity by the Company, any of its related companies or any of its substantial shareholders within the last three (3) years;
- e. Has not been appointed in the Company, its subsidiaries, associates, affiliates, or related companies as Chairman "Emeritus". "Ex-Officio" Directors/Officers or members of an advisory board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within the (3) years immediately preceding his election;

- f. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel by the Company, any of its related companies, or any of its substantial shareholders within the last three (3) years;
- g. Has not engaged and does not engage in any transaction with the Company or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a directors or substantial shareholder, other than transactions which are conducted at arm's-length and are immaterial or insignificant;
- h. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- i. Is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders;
- j. It not employed as an executive officer of another company where any of the Company's executives serves as directors.

C. Disqualifications

Aside from the grounds for disqualification of a director, an independent director shall also be disqualified during his tenure under any of the following instances or causes:

- a. He becomes an officer or employee of the Company where he is such member of the Board;
- b. His beneficial security ownership in the Company or its subsidiaries and affiliates exceeds two percent (2%) of the outstanding capital stock of the Company where he is such director. The disqualification from being elected as an independent director is lifted if the limit is later complied with.

D. Election

Except as those required under the Securities Regulation Code and subject to pertinent existing laws, rules and regulations of SEC, the conduct of the election of independent directors shall be made in accordance with the standard election procedures for regular directors as provided in the By-Laws of the Company. It shall be the responsibility of the Chairman to inform all stockholders in attendance of the mandatory requirement of electing independent directors:

- a. Specific slots for independent directors shall not be filled-up by unqualified nominees; and
- b. In case of failure of election for independent directors, the Chairman shall call a separate election during the same meeting to fill up the vacancy.

E. Term and Cessation

The Board's independent directors should serve for a maximum cumulative term of nine (9) years. After which, the independent director should be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and election as non-independent director. In the instance that the Company intends to retain an independent director who has served for nine (9) years as a non-independent director, the Board shall provide meritorious justification/s and obtain shareholders' approval during the annual shareholders meeting.

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the SEC within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination and Compensation Committee, otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

F. Number of Independent Directors

At least two (2) of the Company's seven (7) directors shall be independent directors.

Nomination of Candidates for Directors

1. The Nomination and Compensation Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall review and evaluate the qualifications of all individuals nominated to the Board.
2. The Committee shall pre-screen the qualifications and prepare a final list of all candidates nominated to become a member of the Board in accordance with the qualifications and disqualifications of a director under the Company's Fourth Amended By-Laws and the Revised Manual on Corporate Governance.
3. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

Final List of Candidates for Directors

As of the date of this Information Statement, the following incumbent directors have been nominated to the Board for re-election at the annual stockholders' meeting and have accepted their nomination:

1. Frank S. Gaisano
2. Jack S. Gaisano
3. Edward S. Gaisano
4. Margaret G. Ang
5. Arthur Emmanuel
6. Guillermo L. Parayno, Jr.
7. Ricardo Nicanor N. Jacinto

The nominees, other than the nominees for independent directors, were formally nominated to the Nomination and Compensation Committee of the Board by a shareholder of the Company, Vicsal Development Corporation (“VDC”). Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, both incumbent independent directors of the Company, are being nominated as independent directors. The independent directors were nominated to the Nomination and Compensation Committee by Ms. Lucille S. Malazarte, a stockholder of the Company. Ms. Malazarte is not related to any of the Independent Directors. None of the candidates for independent directors of the Company are related to VDC.

The elected directors shall hold office for one (1) year and until their successors are elected and qualified.

Significant Employees

The Company has no significant employee or personnel who was not an executive officer but is expected to make a significant contribution to the business.

Family Relationships

Family relationships (by consanguinity or affinity within the fourth civil degree) between Directors and members of the Company’s senior management are as follows:

Frank S. Gaisano, Chairman of the Board of Directors, Jack S. Gaisano, Edward S. Gaisano and Margaret G. Ang, Directors of the Company, are siblings.

Apart from the foregoing, there are no other family relationships up to the fourth civil degree either by consanguinity or affinity among directors or executive officers of the Company.

Involvement in Certain Legal Proceedings

To the best of the Company’s knowledge and belief and after due inquiry, none of the Company’s directors, nominees for election as director, or executive officers have in the five-year period prior to the date of this Report: (1) had any petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time; (2) have been convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses; (3) have been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

However, one of our Independent Directors, Mr. Guillermo L. Parayno, Jr., has disclosed that there is one (1) complaint under preliminary investigation before the Office of the Ombudsman where he has been named as a respondent in his previous capacity as the former Commissioner of Customs. As of the date of this Statement, the complaint (which was filed before his election as an independent director of the Company) has not progressed into a court case or been given due course.

There are no material pending legal proceedings to which the Company is a party.

Certain Relationships and Related Party Transactions

The Company and its affiliated companies, in the ordinary course of business, have engaged in transactions with each other, consisting principally of leases on an arms-length basis and sales and purchases of goods and services at market price.

Please refer to Note 18 (Related Party Transactions) of the Notes to Consolidated Financial Statements.

Compensation of Directors and Executive Officers

Summary Compensation Table

The following table sets out the Company's Chairman and Chief Executive Officer and four most highly compensated senior officers of the Company for the last three (3) years and projected for the ensuing year (2018):

Name	Position	Year	Aggregate Salary (Annual)	Bonus	Other Annual Compensation
Frank S. Gaisano	Chairman and Chief Executive Officer	2017	Php 47,800,986.36		
Arthur Emmanuel	President and Chief Operating Officer	2017			
Vincent E. Tomaneng	Corporate Secretary and Chief Legal Counsel	2017			
Joselito G. Orense	Chief Financial Officer and Treasurer	2017			
Jonathan Juan DC Moreno	Chief Strategy and Governance Officer	2017			
All Other Officers and Directors as a Group Unnamed		2017	Php 3,663,710.90		

The following table identified and summarizes the aggregated compensation (actual and expected) of the Company's Chairman and Chief Executive Officer and the four most highly compensated executive officers of the Company in 2015, 2016, and 2017 and for the ensuing year 2018:

Chairman and Chief Executive Officer and the four most highly compensated executive officers named Above	Year	Total (in Php)
	2015 (Actual)	34,455,718.75
2016 (Actual)	43,765,447.49	
2017 (Actual)	47,800,986.36	
2018 (Projected)	49,235,015.95	
All Other officers and Directors as a Group Unnamed	2015 (Actual)	2,872,138.37
	2016 (Actual)	8,760,494.84
	2017 (Actual)	3,663,710.90
	2018 (Projected)	3,663,710.90

Standard Arrangements

The by-laws of the Company provide that the Board is authorized to fix and determine the compensation of the Directors and Officers in accordance with law.

By resolution of the Board, there are currently no standard arrangements pursuant to which Directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, except reasonable per diem for attendance in Board and/or Committee meetings, as follows:

	FIXED REMUNERATION	PER DIEM ALLOWANCE – Per BOD Meeting	PER DIEM ALLOWANCE – Per Committee Meeting
Executive Directors	Fixed monthly compensation	Nominal per diem of Php10,000.00 (net of tax)	Nominal per diem of Php10,000.00 (net of tax)
Non- Executive Directors	None	Nominal per diem of Php10,000.00 (net of tax)	Nominal per diem of Php10,000.00 (net of tax)
Independent Directors	None	₱ 150,000.00 (gross of tax)	Chairman: ₱ 45,000.00 (gross of tax) Member: ₱ 40,000.00 (gross of tax)

Other Arrangements

Except for Mr. Frank S. Gaisano and Mr. Arthur Emmanuel, who receive salaries as Chief Executive Officer and President & Chief Operating Officer, respectively, there are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Employment Contracts

The Company has existing employment contracts with its executive officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Company in the event of a change in control.

Warrants and Options Outstanding

As of the date of this Report, there are no outstanding warrants or options held by the Chief Executive Officer, and President & Chief Operating Officer, and the named key executive and managerial officers, and all officers and directors as a group. However, the

Board of Directors and Stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 Shares out of its unissued capital stock to key personnel. The specific terms of such stock option plan have not yet been established by the Company's Nomination and Compensation Committee.

Independent Public Accountants

Sycip Gorres Velayo & Co. (SGV &Co.) has acted as the Company's independent public accountant. The same accounting firm will be nominated for reappointment for the current calendar year at the annual meeting of stockholders.

The representatives of the independent public accountant are expected to be present at the current year's annual meeting of stockholders. They may also make a statement and respond to appropriate questions with respect to matters for which their services were engaged.

The handling partner for the Company's account is Dolmar C. Montañez. The Company will comply with paragraph 3(b)(ix) of Securities Regulation Code Rule 68, as amended, which provides that the external auditor should be rotated, or the handling partner changed every five (5) years of engagement, or earlier and that a two (2) year cooling off period shall be observed on the re-engagement of the same signing partner.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no disagreements with the external auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company.

Audit and Audit Related Fees

The following table sets out the aggregate fees billed to the Company and its subsidiaries for the last three years for professional services rendered by SyCip, Gorres Velayo & Co.,

Audit and Audit-Related Fees	2017	2016	2015
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱1,815,000	₱1,800,000	₱2,000,000
Professional Fees related to the Initial Public Offering		–	9,631,058
Tax Fees		–	–
All Other Fees	385,000	164,700	–
Total	₱2,200,000	₱1,964,700	₱11,631,058

There were no disagreements with the external auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company.

No other service was provided by external auditors to the Company for the years ended December 31, 2017, 2016, and 2015.

The Audit and Risk Committee approves any engagement for the services of the external auditor. After reviewing the need for the services of the external auditor, the Audit and Risk Committee shall review the engagement proposal submitted. If the Audit and Risk Committee finds

the engagement proposal acceptable, the Audit and Risk Committee then approves and passes a resolution appointing the external auditor and recommends that the said resolution be endorsed for the approval of the Company's stockholders during the Annual Meeting of the Stockholders of the Company. The stockholders of the Company then approves and ratifies the recommendation of the Audit and Risk Committee during the Annual Stockholders' Meeting.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Financial and Other Information

The Company's Audited Financial Statements as of December 31, 2017, are attached hereto as Annex "B".

Restatement of Accounts

The audited financial statements of the Company have been prepared in compliance with Philippine Reporting Standards ("PFRS").

Please refer to Note 2 of the attached Company's audited financial statements on the Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies.

D. OTHER MATTERS

Action with respect to reports

The following are included in the agenda of the Annual Meeting of Stockholders for the approval of the stockholders:

1. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on May 5, 2017
2. Approval of the Annual Report and the Audited Financial Statements for CY 2017
3. Appointment of External Auditor
4. General ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last annual stockholders' meeting up to the date of this meeting
5. Election of Board of Directors
6. Consideration of such other matters as may properly come during the meeting

A summary of the matters approved and recorded in the Minutes of the Annual Meeting of the Stockholders last May 5, 2017 is as follows:

1. Election of Board of Directors; and
2. Approval and Confirmation of all acts and resolutions of the Board of Directors, Officers and Management for the Preceding Year.

Below is a brief description of material matters approved by the Board of Directors and Management and disclosed to the SEC and PSE since the last annual meeting of stockholders held on May 5, 2017 for ratification by the stockholders:

<u>Date of Board Approval</u>	<u>Description</u>
March 16, 2018	Approval of cash dividends amounting to Php 205,762,500.00

Voting Procedures

Article II, Section 7 of the Company's Fourth Amended By-Laws provide that at all meetings of stockholders, a stockholder may vote in person or by proxy. Proxies shall be in writing and signed in accordance with the existing laws, rules and regulations of the Securities and Exchange Commission. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than seven (7) business days prior to the date of the stockholders' meeting for proxy validation.

In connection with the foregoing, and for the purpose of the 2018 Annual Stockholders' Meeting of the Company, proxies in the form provided by the Company, must be submitted to the Company's Corporate Secretary, at the Principal Office of the Company not later than April 19, 2018. The proxies shall be validated on April 25, 2018 at the Principal Office of the Company. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting.

Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary prior to a scheduled meeting or by their personal presence at the meeting.

The Company's Fourth Amended By-Laws does not prescribe the specific method of voting by the shareholders. However, election of directors will be conducted by ballot. In the election of directors, the shareholders are entitled to cumulate their votes as discussed in Item B Control and Compensation Information – Directors and Executive Officers (Election of Directors), page 3 of this Information Statement. The Company's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the stockholders.

Restriction that Limits the Payment of Dividends on Common Shares

None

Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

Not applicable

Corporate Governance

In accordance with SEC Memorandum Circular No. 19, series of 2016, the Company filed its Revised Manual on Corporate Governance (the "Manual") last May 30, 2017, which substantially complied with the requirements under SRC Rule 38, as amended, and the Revised Code of Corporate Governance for Publicly Listed Companies.

The Company and its respective directors, officers and employees have complied with the best practices and principles on good corporate governance as embodied in the Manual. The Manual also sets forth the various evaluation systems established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with corporate governance.

The Company has not deviated from the Manual and there have been no violations thereof since the Manual was approved by the Company's Board of Directors.

In addition to the Manual, the Company, upon recommendation of its Governance Committee, has approved a Guidelines on Matters Requiring Board, Shareholders and Management Approval. Further, the Company has also approved the following policies to improve the corporate governance of the Company:

1. Policy on Related Party Transactions;
2. Whistle-Blowing Policy;
3. Code of Conduct for Directors and Senior Management;
4. Anti-Money Laundering Manual.

UPON WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF THE COMPANY'S ANNUAL REPORT (SEC FORM 17-A) FREE OF CHARGE, EXCEPT FOR EXHIBITS ATTACHED THERETO WHICH SHALL BE CHARGED AT COST. ANY WRITTEN REQUEST FOR A COPY OF THE ANNUAL REPORT SHALL BE ADDRESSED AS FOLLOWS:

ATTENTION :


JONATHAN JUAN MORENO
Chief Strategy and Governance Officer
6F Metro Market Market
Mabini Avenue cor. McKinley Parkway
Bonifacio Global City
Taguig 1634

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaue, Cebu on March 21, 2018.

METRO RETAIL STORES GROUP, INC.

By:



ATTY. VINCENT E. TOMANENG
Corporate Secretary

Annex “A”

Management Report

PART I BUSINESS AND GENERAL INFORMATION

Item 1 Business

(A) Business Development

We are one of the leading retail companies in the Philippines and in the Visayas, which is one of the fastest-growing geographic regions in the Philippines. We opened our first store in Cebu City in 1982 and have steadily grown to become a market leader in the Visayas. After focusing on steady growth during the first two decades of our operations, we started to open stores outside of the Visayas, beginning with the opening of our department store and supermarket in Legazpi City in 2001, followed by the opening of our department store and supermarket in Lucena City in 2003 and by the opening of our department store and supermarket at Metro Market! Market! at the Bonifacio Global City in Taguig in Metro Manila in 2004.

As of end of 2017, we had a total of eleven (11) stores in Metro Manila and twelve (12) stores in other parts of Luzon with a total net selling space of approximately 228,980 sqm.

In addition, we have a total of 29 stores in the Visayas, with a total net selling space of approximately 108,623 sqm. This brings our total store count in the Philippines to fifty-two (52), with a total net selling space of 337,603 sqm.

(B) Business of Issuer

1. Description of registrant

a. Principal products and Services

The Company operates through the following retail formats and are located in strategic locations in densely populated cities or municipalities:

Supermarket

Our supermarket business is operated under two brand names “Metro Supermarket” and “Metro Fresh N Easy,” which we refer to collectively herein as “Metro Supermarket.” The Metro Fresh N Easy brand name is used for our smaller scale supermarkets serving as neighborhood stores.

Metro Supermarket opened its first supermarket, Gaisano Metro Department Store and Supermarket, in Cebu City in 1982 and currently operates 26 supermarkets in the Visayas, Metro Manila, and the rest of Luzon. As of end of 2017, Metro Supermarket had a total net selling space of approximately 44,600 sqm and an average net selling space of 1,718 sqm.

Department store

We started our retail business with the opening of Gaisano Metro Department Store and Supermarket in Colon, Cebu City in 1982. Our department stores are now operated under the “Metro Department Store” brand name.

As of 2017, we had 12 department stores in 10 cities throughout the country, with a total net selling space of 127,138 sqm and an average net selling space per store of 10,595 sqm.

Hypermarket

Our hypermarket retail format is operated under the name “Super Metro.” Our hypermarkets are a hybrid between our supermarkets and department stores, providing a broad assortment of basic everyday products at value prices. A cornerstone of our plans for future expansion, we opened our first hypermarket in 2011 and we currently operate 14 hypermarkets in 12 cities throughout the country with a total net selling space of 57,183 sqm and an average net selling space of 4,084 sqm. Our hypermarkets are supported by the same distribution centers as our supermarkets and department stores.

Target Market

Metro Supermarket primarily targets low to middle-income consumers who live within walking distance of its stores and those who use personal or public transport to shop. Metro Supermarket offers suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. Its customers include individuals, institutional customers and resellers. Metro Supermarket offers negotiated discount prices to institutional customers, such as schools and businesses that make bulk purchases for special occasions. Metro Supermarket also sells to resellers, including small to medium sari-sari stores, restaurants, bakeries, convenience and drug stores. We are not dependent on any single customer in our supermarket business.

Metro Department Store targets customers who live within walking distance of its stores and those who use personal or public transport to shop. Metro Department Store offers suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. Metro Department Store primarily targets lower- to middle-income consumers and strategically adjusts its product mix within different stores to account for variances in local income levels and customer demographics. We are not dependent on any single customer in our department store business.

Due to the nature of its operations, Super Metro hypermarkets target end consumers, including retail customers and wholesalers, in locations beyond the reach of typical modern supermarkets and department stores. Therefore, Super Metro seeks to ensure that its stores are centrally located in its target regions. Super Metro targets primarily middle-income and upper lower-income retail customers. Super Metro hypermarkets also sell to resellers, including small to medium sari-sari stores, restaurants, bakeries, convenience and drug stores. We are not dependent on any single customer in our hypermarket business.

Metro Rewards Card – In 2006, the Company launched the Metro Rewards Card (MRC), a loyalty card allowing its members to redeem accrued points across all stores and all formats. The MRC is a powerful tool in knowing and increasing loyalty among our customers.

Foreign Sales

The Company has no record of foreign sales as it is not exporting any of its merchandise abroad.

b. Distribution methods

We have a total of 9 warehouses nationwide (3 in Luzon and 6 in Cebu) which serve as a storage and cross docking facility for department store and supermarket items. All the warehouses are currently in-house managed. Each warehouse is equipped with racking, material handling equipment, and enabled by ORACLE warehouse management system. Our processes are compliant with Good Warehouse and Distribution Practices. Our people are professionals certified to run the facility. We also provide other services such as piece picking, kitting and assembly as requested by merchandising and store operations. Our operations are safe and compliant with the best practices on warehousing and distribution.

We have company-owned fleet of delivery trucks servicing the stores, designed to cover 60% of our fleet capacity nationwide. Our in-house trucks are GPS enabled. The balance 40% of our fleet requirements is covered by third party truck providers.

We use major shipping lines to transport products from one warehouse to another between Luzon and Visayas.

Our key strategic initiatives are as follows in order to:

1. Support our aggressive network expansion, we will put in place one Distribution Center (“DC”) in Luzon to cover all Luzon stores and one DC in Cebu to cover Visayas stores. The go-live of these DC’s will be dependent on the land conversion, warehouse construction and necessary fittings installations. The DC will cover both storage and cross docking operations for dry, chilled, cold and fresh operations;
2. Support our outright model and rise of direct importation, we will obtain all necessary regulatory licenses and permits to import, warehouse, transport and distribute our foreign goods assortment via the import company that we use. Furthermore we will demonstrate improved velocity in terms of releasing from the Bureau of Customs, warehouse receipt and distribution of these imported items to the stores;
3. Support our aggressive introduction of private brands and labels, we will obtain all necessary regulatory licenses and permits to procure, warehouse, transport and distribute via MRSGI;

4. Support our campaign on End to End Supply Chain Food Safety promise to our consumers- we are going to put in place a food safety program from suppliers (Good Agricultural and Manufacturing Practices), to warehouses & transport (Good Warehouse and Distribution Practices) unto our stores (Good Retail Practices) consistent with the internal standards of Code Alimentaire. We will continue to pass the HACCP (Hazard analysis and critical control points) surveillance audit for Metro Alabang and endeavor to obtain the appropriate HACCP accreditation for Metro Market Market and Metro Ayala;
5. Support our sales target through product availability, we will further demonstrate breakthrough performance with regards to our ability to service store orders on time, in full, right quality and no documentation errors. We will support our institutional customers with the fit-for-purpose distribution model that they will require;
6. Support our profit targets through putting in place productivity programs to be able to handle more products with lesser resources required, and drive cost saving initiatives in controllable operating expenses of the operations. Furthermore, we will ensure inventory record accuracy and minimize shrinkages in our operations.

c. New products and services

The Company has no new products or services outside of its core business of department store, hypermarket, supermarket and ancillary businesses (pharmacy, bakery, gourmet, food avenue, and leasing).

d. Competition

The Philippine food retail market has become increasingly competitive in recent years. We compete with both traditional stores and modern retail operators, including hypermarkets, supermarkets, convenience stores and local grocery stores, on the basis of location, shopping experience, presentation, price, supply chain and additional benefits such as loyalty programs. SM Retail, Robinsons Retail Group, Puregold Price Club and Rustan's Group of Companies are among the top supermarket competitors in terms of retail sales value. Each of these retail chains has an established presence in the Philippines and continues to open supermarkets in the same cities, and often in the same neighborhoods, where we have opened or intend to open our supermarkets. International brands such as Landers, with local partners operating stores in larger metro areas have recently begun to present a new source of competition.

We believe that Metro Supermarket's differentiators are our prices and our product assortment. We believe that we are able to provide all of the basic goods that our consumers expect while continuing to be competitive in pricing in every region that we operate in. Additionally, our strength in product assortment, particularly in nonfood products with higher margins, help us compete with other retailers of food products. We believe that our prices and assortment, coupled with a best-in-class customer shopping experience, set us apart from our competitors.

The Philippine department store industry is dominated by a few top operators. SM Retail, Robinsons Retail Group, Gaisano Grand and Gaisano Capital are among the top competitors in terms of retail sales value. Metro Department Store competes with major department store operators on the basis of location, product assortment, brand recognition, store image, presentation, price, understanding of market demand and value-added customer services. Each of the competing department store chains

has an established presence in the Philippines and is continuing to open department stores in the same cities, and often the same neighborhoods, where Metro Department Store has opened or intends to open its department stores.

Super Metro competes primarily with traditional stores and other modern retail operators, including other hypermarkets, supermarkets, convenience stores and local grocery stores. Puregold Price Club, SM Retail, Rustan's Group of Companies, and Prince Warehouse Club are among the top hypermarket competitors in terms of retail sales value. These competitors, like Super Metro, are associated with larger brands that have an established presence in the Philippines.

We believe that Super Metro's key competitive strength is its ability to rely on our group's deep experience in providing retail services to the lower- to middle-income consumers. Cost saving measures implemented in our existing operations are easily transplanted to the Super Metro platform, enabling us to maintain our status as a price leader in the hypermarket market. Additionally, our focus on basic everyday necessities further reduces our costs by allowing us to source more products from fewer suppliers.

e. Suppliers

With over 1,700 regular suppliers in 2017, Metro Supermarket's supplier base is diversified between local suppliers such as Universal Robina Corporation and San Miguel Pure Foods Company, Inc. and multinational corporations such as Nestle Philippines Inc., and Proctor and Gamble. Metro Supermarket's top five suppliers together accounted for 22% of its net sales in 2017. For smaller local suppliers, Metro Supermarket seeks to partner with the best suppliers in each region in which it operates. We believe that our supermarket business as a whole is not dependent on any single supplier.

Metro Department Store maintains close relationships with its concessionaires and suppliers for its outright sales to ensure that it is able to continuously offer a broad range of merchandise. The concessionaires that carry competitive brands with a complete assortment of merchandise are generally placed in areas visually supported by graphics and unique fixtures, while suppliers of direct-sale merchandise are used to complete our product assortment and provide product differentiation.

With over 2,400 regular suppliers in 2017, Metro Department Store's supplier base includes suppliers such as Fil-Pacific Apparel Corporation, Authentic American Apparel Inc., Camel Appliances Manufacturing Corp. and Electrolux Philippines Inc. Metro Department Store's top five suppliers together accounted for approximately 7.0% of its net sales in 2017. We believe that our department store business as a whole is not dependent on any single supplier.

Super Metro's supplier base is the same as that of our supermarkets and department stores. Nestle Philippines, Inc., Unilever Philippines, Inc., Emperador Distillers Inc., and Universal Robina Corporation and Dranix Distributors, Inc. are among the biggest suppliers of our hypermarket retail format. Super Metro's top five suppliers together accounted for approximately 18% of its net sales in 2017. We believe that our hypermarket business as a whole is not dependent on any single supplier.

f. Dependent upon single/few supplier/customer

MRSGI is not dependent on any single supplier. The Company's top five suppliers accounted for only 14% of its net sales in 2017. The Company does not rely on a single or a few customers for its retail business.

g. Transaction with related parties

In the ordinary course of our business, we engage in transactions with related parties and affiliates. On March 16, 2016, MRSGI has adopted its Policy on Related-Party Transactions to ensure that these transactions are entered into at arm's length on terms no less favourable than terms available to any unconnected third party under the same or similar circumstances.

We have the following major transactions with related parties:

- We entered into lease agreements with Vicsal Development Corporation (“VDC”) for the Company's store space and warehouses. As part of the spin-off of the retail business to Metro Retail Stores Group, the land and structures which used to be owned by VDC remained with the parent company. Rent expenses followed benchmarks based on market guidance from an independent party adviser.
- We have short-term non-interest bearing payables/receivables from VDC in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions.
- In 2016, we entered into a service agreement with VDC for VDC to provide legal and operations strategy services to the Company.
- In the normal course of business, we ordinarily purchase goods and services from our related parties with the following nature of transactions:
 - Purchases of imported goods and store and office equipment from Cornerstone Diversified Goods Trading, Inc.
 - Concession purchases from Beneluxe Trading Corporation, which engages in the watch and jewelry business.
 - The use of logistical services provided by Cargo Bayan Inc. and Bayan Movers Logistics, Inc.
 - Travel ticketing and booking services from Grand Holidays, Inc.
 - Supply of goods and services to malls operated by Pacific Mall Corporation.
- We have entered into lease arrangements for store space with our related parties, including Beneluxe Trading Corporation and Wealth Development Bank Corporation
- We are parties to perpetual trademark licensing agreements with our affiliates, Metro Value Ventures, Inc. (now renamed “Taft Property Group, Inc.”) and VDC, for a nominal fee.
- We have cash placements and bank accounts with Wealth Development Bank Corporation which earn interest based on prevailing market interest rates.

h. Trademarks/Tradenames

Effective August 1, 2014, we had perpetually licensed from Metro Value Ventures, Inc., a related party, the use of the following registered trade names or trademarks and devices used to identify our stores, including “Metro and Device”, “Metro Gaisano”, “Metro Ayala”, “Metro Market Market”, “Super Metro Gaisano”, “Metro Fresh ‘n Easy”, “Metro Pharmacy”, “Metro Legazpi”, “Metro Lucena”, “Express Mart by Metro”, “Metro Wholesale Mart”, “Metro Gourmet”, “Metro Tropical Delights”, “Metro Market”, “Tita Gwapa Metro Supertinda” and “Metro Hi-Per.” Effective August 1, 2014, we also perpetually licensed from Metro Value Ventures, Inc. the use of the following trade names or trademarks and devices, which are registered or covered by pending applications for registration, for: “Blue Camp”, “Red Bears”, “Nicole”, “Junior Shop”, “Young Teens”, “Kiddies”, “Blue Camp & Device”, “Young Teens Collection & Device”, “Cozy”, “McKenzie & Jones”, “Soft Impressions”, “Firenze”, “Metro Living”, “Regal Comfort”, “Main Course”, “Metropolitan”, “Ms’tique”, “Swiss Precision”, “Stylized Casadei”, “MA.CO”, “Follie”, “Mei Wei”, “South Sea”, “Pure Soft”, “Pure Max”, “Pure Joy”, “Lakas”, “West Coast”, “Best Harvest”, “Q Premium Cebu’s Best Lechon & Device”, “Q Premium”, “Q Premium Carcar’s Best Chicharon”, “West Coast Ice”, “Savers Select”, “M Copies”, “Chum Girls”, “Mirabella”, “Cover Girl”, “Natural Clothing”, “Le Chateau”, “Eddy & Emmy”, “Metro Café”, “Nautilus”, “Christian Ferre”, “Nina Botticelli”, “Marquise”, “Vicenza Silver Collection” and “Metro Ware.” We pay Metro Value Ventures, Inc. an annual fee of P10,000.00 per trade name or trademark per year or a total of P 700,000.00 as consideration for the full and complete use of the foregoing trade names and trademarks, which fee may be adjusted upon the mutual consent of both parties.

As of August 1, 2014, we had also perpetually licensed the use of the registered trade names or trademarks and their devices for “Suisse Cottage”, “Karen Kay”, “Street Code”, “Roaster Chef Grill” and “Fiesta sa Sugbo Restaurant” from Vicsal Development Corporation. We pay Vicsal Development Corporation an annual fee of P 10,000.00 per trade name or trademark per year or a total of P50,000.00 as consideration for the full and complete use of the foregoing trade names and trademarks, which fee may be adjusted upon the mutual consent of both parties.

i. Government approvals

The Company has obtained, applied for, or is in the process of applying or renewing all material permits and licenses from national and local government units and other government units required to conduct its business. The Company expects to obtain these permits and licenses in the ordinary course.

j. Effect of existing governmental regulations

In the conduct of its operations, the Company is subject to the following laws and regulations: a) The Retail Trade Liberalization Act; b) The Philippine Competition Act; c) The Food, Drug and Cosmetics Act; d) The Consumer Act; e) The Meat Inspection Code; f) The Price Act; g) The Food Safety Act; h) The Comprehensive Dangerous Drugs Act; i) The Pharmacy Law; j) The Generics Act; and k) Philippine Labor Laws; (l) Expanded Senior Citizen Act of 2010; (m) Intellectual Property Code of the Philippines; (n) Articles on Quasi-Delicts of the Civil Code; and (o) Other pertinent laws.

k. Cost and effect of compliance and environmental laws

The Company is subject to various laws relating to environmental matters. In particular, the Company is required to obtain an Environmental Compliance Certificate (ECC) and/or Certificate of No Coverage (CNC) during the construction and development of commercial establishments such as malls, supermarkets and public markets, fast food and restaurants. The ECC is required when the total store area (including parking) exceeds 10,000 sqm. Where the total store area is equal to or less than 10,000 sqm, the operators of commercial establishments may obtain a CNC pursuant to Presidential Decree No. 1586.

The Company has obtained a CNC for its Metro Supermarket (Canduman) building. For other existing stores, the Company is not subject to the requirement of ECC and/or CNC since these stores are located on lands or buildings which are not owned by the Company.

In addition to the foregoing, the Company is also subject to Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), The Clean Air Act of 1999 (Republic Act No. 8749), and the Philippine Clean Water Act of 2004 (Republic Act No. 9275).

l. Employees

The following table sets out the number of our employees as of December 31, 2017.

Store Operation	7,672
Warehouse Operation	852
Corporate	804
Total	9,328

We believe that we have a good relationship with our employees. We have always placed a high value on training and retention, as demonstrated by the fact that approximately 20% of our regular employees have been with the Company for at least 10 years.

m. Risks Related to Our Business

We may face increased competition from other retail companies in the Philippines.

The retail industry in the Philippines is highly competitive. The intensity of the competition in the Philippine retail industry varies from region to region, but Metro Manila is generally considered to be the most competitive market in the Philippines. The Province of Cebu and Metro Manila are two of our largest markets in terms of net sales. We compete principally with national and international retail chains in the Philippines, such as Robinson's Supermarket and Robinson's Department Store, SM Department Store and SM Supermarket, Puregold, Rustan's and Mercury Drug, among others. We also compete with retail stores operated by members of the broader Gaisano family. Each of these competitors competes with us on the basis of product selection, product quality, acquisition or development of new brands, customer service, price, store location or a combination of these factors. We anticipate competition from new market entrants and joint partnerships between national and international operators.

In addition, some of our competitors are also aggressively expanding their number of stores or their product offerings. Some of these competitors may have been in business longer or may have greater financial, distribution or marketing resources than us and may be able to devote greater resources to sourcing, promoting and selling their products. There can be no assurance that we will be able to

compete successfully against current competitors or new entrants. Additionally, while we have a location advantage in certain underpenetrated regions of the Philippines, this advantage may decrease as our competitors expand or new entrants enter such regions. As competition in certain areas intensifies or competitors open stores within close proximity to our stores, our results of operations may be negatively impacted through a loss of sales, reductions in margins from competitive price changes or greater operating costs.

Competitive pressures, including those arising in connection with our expansion strategy, may have an adverse effect on our business, financial condition and results of operations.

Our future store openings may not be successful, and our existing stores may not be able to continue to benefit from the current favorable retail environment.

A significant part of our expansion strategy entails the opening of new stores in suitable locations in various areas of the Philippines, including in areas where we do not currently have a presence. There can be no assurance that we will be able to identify and procure suitable sites for our new stores. As of end of 2017, we had twelve (12) stores in third-party malls. There can be no assurance that these companies will continue to grow at a rate that is consistent with our planned rate of growth. In addition, there can be no assurance that we will continue to be able to obtain “anchor tenant” status or spaces in new malls or township projects, on terms acceptable to us or at all. Generally, because of its ability to draw more customers to a particular shopping center, an anchor tenant has more flexibility in negotiating the terms of its lease contract. Due to the increased competition for desirable store sites, we may not be able to lease appropriate real estate for our new store locations, on terms and conditions acceptable to us or at all.

There is also no assurance that our new stores will be successful or profitable. While we initially focused our business in the Visayas, we have gradually expanded into other regions. Expansion into new geographical areas will also expose us to additional operational, logistical and other risks. We may find it difficult to obtain regulatory or local government approvals for our new stores in these areas due to differences in local requirements and processes. We may also experience difficulty in building our “Metro Supermarket” and other brand names in these new areas. Our proposed expansion will also place increased demands on our managerial, operational, financial and administrative resources. We may, for example, experience supply, distribution, transportation or inventory management difficulties due to our lack of familiarity with the suppliers, distribution network, third-party vendors and transportation systems in these new geographical areas. Any difficulties we experience with respect to developing our business operations in new geographical areas may materially and adversely affect our business, financial condition and results of operations.

In addition, there can be no assurance that our existing stores will be able to operate on a profitable basis if the current retail environment becomes less favorable to us. The surrounding environment of our existing stores may also change in terms of consumer demographics, or in terms of store mix, as different businesses move in or out of the surrounding areas. There can be no assurance that we will have the flexibility to move our existing store locations or to modify our existing stores in response to changes in the surrounding environment and to changes in market and consumer preferences. If we fail to predict and respond to changes in the retail environment, our business, financial condition and results of operation may be materially and adversely affected.

We are exposed to inventory risks.

Outright sales accounted for over 70% of our net sales for the year ended December 31, 2016 and 2017. Our focus on outright sales exposes us to increased inventory risk, which includes inventory losses due to obsolescence, theft, pilferage, spoilage, and other damage. For products sourced for outright sales, we bear all risks and costs of inventory management, including shrinkage losses due to a discrepancy between our inventory based on a physical count and the amounts generated by our inventory system. If we fail to properly manage our inventory in relation to outright sales, we may suffer lower inventory turnover, which could have an adverse effect on our business, financial condition and results of operations.

The success of our business depends in part on our ability to develop and maintain good relationships with our current and future outright sales suppliers and concessionaires.

We derive approximately 98.8% of our revenue in 2017 from outright sales and sales of concession products, and our success depends on our ability to retain existing suppliers and concessionaires, and attract new suppliers and concessionaires on terms and conditions favorable to us. The sourcing of our products is dependent, in part, on our relationships with our suppliers. We have long-standing working relationships with a broad range of national and multinational suppliers across all of our retail formats. If we are unable to maintain these relationships, or if we lose suppliers for any reason, we may not be able to continue to source products at competitive prices that both meet our standards and appeal to customers. Our five largest suppliers accounted for approximately 16% and 14% of our net sales in 2016 and 2017, respectively. The loss of any one of these major suppliers would have an adverse effect on our sales.

We obtain deals, discounts, and rebates from suppliers, which allow us to maintain our competitive pricing. Should changes occur in market conditions or our competitive position, we may not be able to maintain or negotiate adequate support, which could have an adverse effect on our business, financial condition and results of operations.

If we are unable to maintain good relationships with our existing suppliers and concessionaires, or if we are unable to develop and maintain new supplier and concessionaire relationships, we will be unable to carry merchandise and products that are in demand and can generate profit for us. Furthermore, if any of our outright sales suppliers or concessionaires changes its distribution methods, we may experience a disruption in our product supply. As a result, our market positioning, image and reputation may be adversely affected, and our revenue and profitability may be impaired.

We rely significantly on distributors, service providers and the distribution networks of our multinational suppliers for our logistics requirements.

We rely significantly on distributors, third-party service providers and the distribution networks of our multinational suppliers for transportation, warehousing and delivery of products to our stores. The majority of our merchandise is delivered to our distribution centers from our suppliers by third-party service providers. Any deterioration in the relationships between distributors and third-party service providers or other changes relating to these parties, including changes in supply and distribution chains, could have an adverse effect on our business, financial condition and results of operations.

In addition, there can be no assurance that we will be able to effectively coordinate our logistics strategy to the degree necessary for the realization of our growth plans. As we continue to expand, we

will need to ensure that we are able to secure efficient distributors and service providers for our stores to be opened in new locations.

We may experience difficulty in implementing our growth strategy.

Our growth depends on the execution of our strategy to continue establishing and successfully operating stores in new locations in the Philippines. There are a number of factors affecting our ability to implement our growth strategy, including, among others:

- favorable economic conditions and regulatory environment;
- our ability to identify suitable sites for store locations;
- our ability to lease appropriate real estate for store locations;
- our ability to bear the increase in logistics costs when regional expansion occurs;
- our ability to open new stores in a timely manner;
- our ability to introduce new brands to the market;
- our ability to continue to attract customers to our stores;
- our ability to maintain the scale and stability of our information technology systems to support our current operations and continuous business growth;
- the hiring, training and retention of skilled store personnel;
- the identification and relocation of experienced store management personnel;
- the effective management of inventory to meet the needs of our stores on a timely basis;
- the availability of sufficient levels of cash flow or necessary financing to support our expansion; and
- our ability to successfully address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

If we fail to successfully implement our growth strategy due to the absence of, or our inability to carry out, any of the above mentioned factors, or otherwise, our business, financial condition and results of operations may be materially and adversely affected.

In addition, if we are unable to successfully manage the potential difficulties associated with store growth, we may not be able to capture the scale efficiencies that we expect from expansion. If we are unable to continue to capture scale efficiencies, improve our systems, continue our cost discipline and enhance our merchandise offerings, we may not be able to achieve our goals with respect to operating margins. Furthermore, if we do not adequately refine and improve our various ordering, tracking and allocation systems, we may not be able to increase sales or reduce inventory shrinkage, which may also cause our operating margins to stagnate or decline.

We lease all of our store premises and we may not be able to continue to renew these leases or to enter into new leases in favorable locations on acceptable terms and conditions.

As of 2017, we leased all of our net selling space and all of our distribution centers. Approximately 75% of our sites are leased from related parties and 25% are leased from third parties. There is no assurance that we will be able to renew our leases on acceptable terms and conditions or at all upon their expiry. Leases of store premises in large shopping centers may not be available for extension because landlords may decide to change tenants for better commercial arrangements. There is no assurance that we will be able to enter into such new agreements with third parties on terms and

conditions that are acceptable to us or at all, and our failure to do so may materially and adversely affect our business, financial condition and results of operations.

Moreover, if rent prices increase significantly throughout the Philippines, or in a particular region, it may cease to be economical to lease stores and we may have to discontinue operations at some of our stores. Any inability to renew leases as they expire or acquire new leases in other favorable locations and sites on acceptable terms and conditions, termination of the existing leases, or revision of the terms and conditions of leases to our detriment may have an adverse effect on our business, financial condition and results of operations. Further, a number of our landlords are normally granted the right to terminate the leases for cause prior to their expiration. In the event that any of our leases are terminated for any reason prior to their expiration, we will need to either close our operations at such locations or relocate to alternative premises. Relocation of any of our operations may cause disruptions to our business and may require significant expenditure, and we cannot assure that we will be able to find suitable premises on acceptable terms and conditions or at all in a timely manner.

Product liability claims in respect of defective goods sold in our stores and food safety and food-borne illness concerns could adversely affect our reputation and our financial prospects.

Our business involves an inherent risk of product liability, product recall, adverse publicity and exposure to public liability claims. We do not currently have any product liability insurance and will therefore be subject to the full amount of any product liability we may incur. Although each of our concessionaires and suppliers provides us with a written indemnity covering the full extent of any third-party liability we incur through their operations and sales in our stores, there is no assurance that we will be successful in obtaining such indemnity payments or that the indemnity payments will fully cover all of our costs associated with the original liability. Furthermore, under the Consumer Act, we, as a seller, distributor or importer, may be subject to sanctions for goods not in conformity with applicable consumer product quality or safety standards. If we are found responsible for damage caused by defective goods sold in our stores, the reputation of our stores may be adversely affected. This could lead to erosion of consumer confidence in our brands and a subsequent reduction in sales. Such an event would be likely to have an adverse effect upon our business, financial condition, results of operations and prospects.

Preparation, packaging, transportation, storage and sale of fresh and freshly prepared food products and non-food products entail the inherent risk of product contamination, deterioration or defect, which could potentially lead to product recalls, liability claims and adverse publicity. Food and non-food products may contain contaminants that could, in certain cases, cause illness, injury or death. Any shipment or sale of contaminated, deteriorated or defective products may be grounds for a product liability claim or product recall. The risks of product liability claims or product recall obligations are particularly relevant in the context of our sales of freshly prepared food products. Although our suppliers bear the risk of product liability claims, we could incur adverse publicity through our association with such claims, which could have an adverse effect on our business, financial condition and results of operations.

As a means of fulfilling some of our labor requirements, a significant portion of our workforce is outsourced through third-party manpower agencies. Outsourcing carries with it certain inherent risks including potential litigation from the employees of our third-party manpower service providers who may claim an employer-employee relationship with us; and the risk that the current arrangements we currently have in place are later on found by the Department of Labor and Employment to be “labor-only contracting” which would have the consequence of effectively making us the employer of the relevant employees and thus, obliging us to extend to the relevant employees the same salaries and

benefits we extend to our regular employees, which could have a significant impact on our labor costs. As the principal in the outsourcing arrangement, we can also be held jointly and severally liable with our third-party manpower service providers to the latter's employees for unpaid wages for work performed under their respective contracts, or for any violation by our manpower service providers of the provisions of the Labor Code.

We are party to a number of related party transactions.

Certain companies controlled by the Vicsal Group have significant commercial transactions with us, including leases for store spaces and purchases of goods, services and concession activities.

Such interdependence may mean that any material adverse changes in the operations or financial condition of the companies which are controlled by or under common control of the Metro Gaisano Family could adversely affect our results of operations.

We expect that we will continue to enter into transactions with companies directly or indirectly controlled by or associated with the Metro Gaisano Family. These transactions may involve potential conflicts of interest which could be detrimental to us or our shareholders. Conflicts of interest may also arise between the Metro Gaisano Family and us in a number of other areas relating to our businesses, including:

- major business combinations involving us;
- plans to develop our respective businesses; and
- business opportunities that may be attractive to both the Metro Gaisano Family and us.

The Company has a number of related party transactions that have been entered into on an arm's length basis. However, we have no assurance if the BIR will view these transactions as arm's length on the basis of its Transfer Pricing Regulations.

We can provide no assurance that our level of related party transactions will not have an adverse effect on our business or results of operations.

Our business and operations are dependent upon key executives.

Our key executives and members of management have greatly contributed to our success with their experience, knowledge, business relationships and expertise. If we are unable to fill any vacant key executive or management positions with qualified candidates, our business, operating efficiency and financial performance may be adversely affected.

Item 2 Legal Proceedings

As of December 31, 2017, neither the Company nor any of its properties is engaged in or a subject of any material litigation, claims or arbitration, including bankruptcy, receivership or similar proceedings, either as plaintiff or defendant, which could be expected to have a material effect on our financial position and we are not aware of any facts likely to give rise to any proceedings which would materially and adversely affect our business or operations.

Item 3 Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the year covered by this report.

PART II OPERATIONAL AND FINANCIAL INFORMATION

Item 4 Market for Issuer's Common Equity and Related Stockholder Matters

(A) Principal Market or Markets Where the Registrant's Common Equity is Traded

The Company's common stock is listed in the Philippine Stock Exchange.

The following table shows the high and low prices (in Php) of the Company's shares in the Philippine Stock Exchange for the year 2015 and for the first quarter of 2018, since the Company's listing in November 2015:

		Low	High
November - December	2015	3.63	4.49
January – March (Q1)	2016	2.90	4.05
April- June (Q2)	2016	3.70	4.25
July-September (Q3)	2016	4.04	6.00
October – December (Q4)	2016	3.51	5.61
January –March (Q1)	2017	3.56	4.48
April – June (Q2)	2017	3.56	4.95
July – September (Q3)	2017	3.78	5.30
October – December (Q4)	2017	3.79	4.30
January – March (Q1)	2018	3.23	3.95

On February 28, 2018, the Company's shares closed at Php 3.43 per share.

(B) Holders

The number of shareholders of record as of February 28, 2018 was twenty one (21). Common shares outstanding as of February 28, 2018 were 3,429,375,000.

List of Top 20 Stockholders of Record as of February 28, 2018

Name of Stockholder	Number of Shares	Percentage to Total Outstanding
Vicsal Development Corporation	2,489,800,000	72.60%
PCD Nominee Corp. (Filipino)	751,179,110	21.90%
PCD Nominee Corp. (Non-Filipino)	163,424,912	4.77%
Valueshop Stores, Inc.	24,801,489	0.72%
Juan G. Yu or John Peter C. Yu	150,000	0
Stephen T. Teo &/or Teresita R. Teo	10,000	0
Asuncion, Victor Jayo	5,000	0
Legaspi, Virgilio C.	1,000	0
Lampa, Arvin C.	1,000	0
Duñgo, Elpidio S.	1,000	0
Bagasin, Danilo G.	1,000	0
Valencia, Jesus San Luis	300	0
Herrera, Joselito C.	100	0
Au, Owen Nathaniel S. AU ITF: Li Marcus	78	0
Gaisano, Frank S.	2	0
Gaisano, Edward S.	2	0
Gaisano, Jack S.	2	0

Ang, Margaret G.	2	0
Parayno Jr., Guillermo L.	1	0
Jacinto, Ricardo Nicanor N.	1	0
Emmanuel, Arthur	2	0
Total	3,429,375,000	

(C) Dividends

Dividend Policy

Under Section 3 Article VIII of the Company's Fourth Amended By-Laws, dividends shall be declared and paid out of the unrestricted retained earnings, which shall be payable in cash, property or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

On April 13, 2015, our Board of Directors approved and adopted an annual dividend payment ratio of approximately 20% of our net income after tax for the preceding fiscal year, payable in cash, property or shares, subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends, including but not limited to undertaking major projects and developments which require substantial cash expenditures, or restrictions due to loan covenants.

The Board may, at any time, modify such dividend payout ratio taking into consideration various factors including: the level of our cash earnings, return on equity and retained earnings; our results for, and our financial condition at the end of, the year in respect of which the dividend is to be paid and its expected financial performance; the projected levels of capital expenditure and other investment plans; restrictions of payment of dividends that may be imposed on us by any of our financing arrangements and current and prospective debt service requirements; and such other factors as the Board deems appropriate.

Dividend History

The tables below set out the dividends declared during 2015, 2016, 2017, and 2018:

Cash Dividend

Year	Amount Declared	Dividend Per Share	Recorded Date	Payment Date
2015	P650,000,000.00	P0.2575	July 10, 2015	September 18, 2015 December 18, 2015
2016	P154,321,875.00	P0.045	April 4, 2016	April 20, 2016
2017	P171,468,750.00	P0.05	April 3, 2017	May 2, 2017
2018	P205,762,500.00	P0.06	April 13, 2018	May 2, 2018

(D) Restriction that Limits the Payment of Dividends on Common Shares

None

(E) Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction.

None

Item 5 Management's Discussion and Analysis or Plan of Operation

Results of Operations

The year ended December 31, 2017 compared with the year ended December 31, 2016

Revenue

Net sales

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2017 and 2016 and the percentage change in these key operating performance indicators between the two periods.

	As of or for the year ended		Percentage Change
	December 31,		
	2017	2016	
The Company			
Number of Stores	52	50	4.0%
Net Sales (₱ millions)	35,015.7	34,410.9	1.8%
Average Basket Size (₱)	594.5	554.1	7.3%
Number of transactions (millions)	58.9	62.1	(5.2%)
Same store sales growth (%)	(0.7)	2.8	

For the year ended December 31, 2017, our net sales were ₱35,015.7 million, an increase of 1.8% compared to ₱34,410.9 million for the year ended December 31, 2016. The increase in net sales was primarily due to the opening of a new hypermarket and a new supermarket. Same stores sales fell by 0.7% due to decisions to rationalize sales to resellers which were unprofitable. Transaction count fell by 5.2% in 2017 compared to 2016 but more focused marketing and sales efforts resulted to an average basket size increase of 7.3%.

Rental income

For the year ended December 31, 2017, our rental income was ₱299.9 million, an increase of 0.5% compared to ₱298.4 million for the year ended December 31, 2016. The increase in rental income was primarily due to the opening of two new stores, which led to an increase in net leasable space.

Interest and other income

For the year ended December 31, 2017, our interest and other income was ₱138.0 million, an increase of 0.7% compared to ₱137.1 million for the year ended December 31, 2016. The increase in interest and other income was primarily due to an increase in foreign currency gains resulting from the movements of the market exchange rates.

Cost of sales

For the year ended December 31, 2017, our cost of sales was ₱27,443.4 million, a decrease of 0.1% compared to ₱27,476.2 million for the year ended December 31, 2016. Margins have improved in 2017 compared to 2016 due to a well-executed margin enhancement plan that included among others, negotiations with suppliers, improvement of share to business of outright sales, lesser clearance sale events, and rationalization of sales to resellers.

Operating expenses

For the year ended December 31, 2017, our operating expenses were ₱6,596.9 million, an increase of 5.9% compared to ₱6,227.0 million for the year ended December 31, 2016. The increase in operating expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. In addition, nonrecurring expenses were incurred in 2017 amounting to ₱88.4 million resulting from the planned closure of an unprofitable store in the first quarter of 2018.

Finance costs

For the year ended December 31, 2017, our finance costs were ₱17.6 million, a decrease of 22.8% compared to ₱22.8 million for the year ended December 31, 2016. The decrease in finance costs is due to the payment of total outstanding loan of ₱950M as of December 31, 2015 in March 2016. The company had minimal loans for working capital in 2017 and had nil loans outstanding as of the end of December 2017.

Provision for income tax

For the year ended December 31, 2017, our provision for income tax was ₱418.8 million, an increase of 26.5% compared to ₱331.0 million for the year ended December 31, 2016. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2017, our net income was ₱977.0 million, an increase of 23.7% compared to ₱789.5 million for the year ended December 31, 2016.

The year ended December 31, 2016 compared with the year ended December 31, 2015

Revenue

Net sales

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2016 and 2015, and the percentage change in these key operating performance indicators between the two periods.

	As of or for the year ended		Percentage Change
	December 31, 2016	2015	
The Company			
Number of Stores	50	46	8.7%
Net Sales (₱ millions)	34,410.9	32,304.5	6.5%
Average Basket Size (₱)	554.1	546.6	1.4%
Number of transactions (millions)	62.1	59.1	5.1%
Same store sales growth (%)	2.8	9.4	

Note: Same stores sales growth excludes sales that were renegotiated to fixed rent leases.

For the year ended December 31, 2016, our net sales were ₱34,410.9 million, an increase of 6.5% compared to ₱32,304.5 million for the year ended December 2015. The increase in net sales was largely a result of opening of two new department stores, a new supermarket and a new hypermarket. Same store sales growth was 2.8%.

Rental Income

For the year ended December 31, 2016, our rental income was ₱298.4 million, an increase of 48.4% compared to ₱201.1 million for the year ended December 31, 2015. The increase in rental income was primarily due to the opening of four new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of certain concession sales from percentage of revenue to fixed or percentage to revenue rent leases.

Interest and other income

For the year ended December 31, 2016, our interest and other income was ₱137.1 million, an increase of 80.2% compared to ₱76.1 million for the year ended December 31, 2015. The increase in interest and other income was primarily due to the increase in cash balances of bank accounts maintained by the Company for our working capital requirements and interest income from short term investments and cash equivalents arising from the proceeds of the initial public offering which happened later part of 2015.

Cost of sales

For the year ended December 31, 2016, our cost of sales was ₱27,476.2 million, an increase of 6.6% compared to ₱25,774.5 million for the year ended December 31, 2015 which is generally in line with the 6.5% increase in net sales.

Operating expenses

For the year ended December 31, 2016, our operating expenses were ₱6,227.0 million, an increase of 9.4% compared to ₱5,689.6 million for the year ended December 31, 2015. The increase was primarily due to an increase in salaries and wages, rent expenses, overhead expenses and depreciation expenses resulting from the opening of new stores.

Finance costs

For the year ended December 31, 2016, our finance costs were ₱22.8 million, a decrease of 36.8% compared to ₱36.1 million for the year ended December 31, 2015 after full payment of loans was made in March 2016.

Provision for income tax

For the year ended December 31, 2016, our provision for income tax was ₱331.0 million, an increase of 2.5% compared to ₱322.8 million for the year ended December 31, 2015. The increase in provision for income tax was primarily due to the increase in income before tax.

Net income

As a result of the foregoing, for the year ended December 31, 2016, our net income was ₱789.5 million, an increase of 4.1% compared to ₱758.6 million for year ended December 31, 2015.

The year ended December 31, 2015 compared with the year ended December 31, 2014

Revenue

Net sales

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2015 and 2014 and the percentage change in these key operating performance indicators between the two periods.

	As of or for the year ended		Percentage Change
	December 31,		
The Company	2015	2014	
Number of Stores	46	43	7.0%
Net Sales (₱ millions)	32,304.5	28,356.9	13.9%
Average Basket Size (₱)	546.3	511.9	6.7%
Number of transactions (millions)	59.1	55.4	6.7%
Same store sales growth (%)	9.4	(1.2)	

For the year ended December 31, 2015, our net sales were ₱32,304.5 million, an increase of 13.9% compared to ₱28,356.9 million for the year ended December 31, 2014. The increase in net sales was primarily due to the increase of overall same store sales of 9.4% and the opening of two new hypermarkets and one new supermarket.

Rental income

For the year ended December 31, 2015, our rental income was ₱201.1 million, an increase of 125.7% compared to ₱89.1 million for the year ended December 31, 2014. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of percentage of revenue to fixed rent leases.

Interest and other income

For the year ended December 31, 2015, our interest and other income was ₱76.1 million, a decrease of 20.4% compared to ₱95.6 million for the year ended December 31, 2014. Scrap sales in 2015 amounted to ₱14.6 million, representing a decrease of 63.9% compared to ₱40.6 million in 2014.

Cost of sales

For the year ended December 31, 2015, our cost of sales was ₱25,774.5 million, an increase of 15.1% compared to ₱22,393.2 million for the year ended December 31, 2014, which was generally in line with the growth of net sales of 13.9%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

Operating expenses

For the year ended December 31, 2015, our operating expenses were ₱5,689.6 million, an increase of 9.1% compared to ₱5,213.3 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. The increase of 9.1% of operating expenses is lower than the increase in our net sales of 13.9% due to the economic benefits derived from increase in scale of our operations.

Finance costs

For the year ended December 31, 2015, our finance costs were ₱36.1 million, a decrease of 9.8% compared to ₱40.0 million for the year ended December 31, 2014. The decrease in finance costs was primarily due to decrease in our average loans outstanding.

Provision for income tax

For the year ended December 31, 2015, our provision for income tax was ₱322.8 million, an increase of 21.3% compared to ₱266.2 million for the year ended December 31, 2014. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2015, our net income was ₱758.6 million, an increase of 20.6% compared to ₱628.9 million for the year ended December 31, 2014.

Financial Position

The year ended December 31, 2017 compared with the year ended December 31, 2016

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,569.7 million and ₱4,664.5 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,622.7 million and ₱8,956.5 million, respectively. The increase of 7.4% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments and receivables. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱1,016.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱141.4 million. As of December 31, 2016, short-term investment totaled ₱525.0 million, receivables totaled ₱952.7 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱157.2 million.

As of December 31, 2017, cash and cash equivalents amounted to ₱3,707.2 million, an increase of 12.1% from ₱3,307.0 million as of December 31, 2016. The increase were mainly attributable to ₱1,256.4 million generated from operation activities and were offset by the increase of short-term investments by ₱230.2 million, addition to property and equipment amounting to ₱446.3 million and dividends payment amounting to ₱171.5 million.

Current Liabilities

Total current liabilities as of December 31, 2017 and December 31, 2016 were ₱4,053.0 million and ₱4,292.0 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱3,834.3 million and ₱4,047.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

The year ended December 31, 2016 compared with the year ended December 31, 2015

As of December 31, 2016 and December 31, 2015, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,664.6 million and ₱5,059.5 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2016 and December 31, 2015 were ₱8,956.5 million and ₱9,576.5 million, respectively. The decrease of 6.5% of current assets is significantly due to the conversion of ₱1,700.0 million short term investments to cash equivalent and the decrease in other current assets. As of December 31, 2016, short term investment totaled ₱525.0 million, and other current assets totaled ₱157.2 million. As of December 31, 2015, short-term investments totaled ₱2,225.0 million, and other current assets totaled ₱481.6 million.

As of December 31, 2016, cash and cash equivalents amounted to ₱3,307.0 million, an increase of 40.7% from ₱2,351.0 million as of December 31, 2015. The increase were mainly attributable to the conversion of ₱1,700.0 million short-term investments to cash equivalent and ₱1,482.6 million generated from operating activities and were offset by the payment of ₱950.0 million of the

outstanding loans payable, acquisition of ₱831.7 million property and equipment and dividend payment of ₱154.3 million.

Current Liabilities

Total current liabilities as of December 31, 2016 and December 31, 2015 were ₱4,185.6 million and ₱4,517.0 million, respectively. As of December 31, 2016 and December 31, 2015, trade and other payables totaled ₱3,940.9 million and ₱3,374.2 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to nil and ₱950.0 million as of December 31, 2016 and December 31, 2015, respectively.

The year ended December 31, 2015 compared with the year ended December 31, 2014

As of December 31, 2015 and 2014, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,059.6 million and ₱1,832.3 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2015 and 2014 were ₱9,576.5 million and ₱6,288.0 million, respectively. The increase of 52.3% of current assets is significantly due to the increase in working capital arising from the proceeds of the initial public offering. As of December 31, 2015, merchandise inventories totaled ₱3,679.8 million, cash and cash equivalents totaled ₱2,351.0 million and short-term investments totaled ₱2,225.0 million. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling ₱3,168.2 million, followed by cash, totaling ₱1,625.7 million.

As of December 31, 2015, the cash balance totaled to ₱2,351.0 million, an increase of 44.6% from ₱1,625.7 million. The increase were mainly attributable to issuance of capital stock by way of an initial public offering of ₱3,360.9 million and increase in trade and other payables of ₱43.1 million offset by acquisition of ₱635.6 million property and equipment, net payment of ₱150.0 million of the outstanding loans payable as of December 31, 2014 and payment of cash dividends amounting to ₱650.0 million declared in 2015.

Current Liabilities

Our current liabilities consist of trade and other payables and loans payable and income tax payable. Total current liabilities as of December 31, 2015 and 2014 were ₱4,517.0 million and ₱4,455.7 million, respectively. As of December 31, 2015 and 2014, trade and other payables totaled ₱3,374.2 million and ₱3,284.0 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Loans payable in short term working capital loans amounted to ₱950.0 million and ₱1,100.0 million as of December 31, 2015 and 2014, respectively. There were no long-term loans from financial institutions in 2015 and 2014.

Cash Flows

The following table sets out information from our statements of cash flows for the periods indicated.

	For the years ended December		
	2017	31, 2016	2015
	(P million)		
Net cash flows from operating activities	₱1,256.4	₱1,482.6	₱1,020.7
Net cash flows from (used in) investing activities	(670.0)	630.6	(2,864.4)
Net cash flows from (used in) financing activities	(202.6)	(1,172.5)	2,560.9
Net increase in cash	<u>₱383.8</u>	<u>₱940.7</u>	<u>₱717.2</u>

Net cash flows from operating activities

Our net cash flows generated from operating activities for the year ended December 31, 2017 was ₱1,256.4 million, which comprised operating income before working capital changes of ₱1,992.5 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in receivables and decrease in trade and other payables.

Our net cash flows generated from operating activities for the year ended December 31, 2016 was ₱1,482.6 million, which comprised operating income before working capital changes of ₱1,581.2 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories of ₱334.9 million primarily due to the opening of new stores. The increase in trade and other payables of ₱441.6 million also significantly contributed to the change in working capital requirements.

Our net cash flows from operating activities for the year ended December 31, 2015 was ₱1,020.7 million, which is comprised of operating income before working capital changes of ₱1,529.7 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories amounting to ₱511.6 million primarily due to opening of new stores and decrease in receivables of ₱32.2 million. The increase in trade and other payables of ₱43.1 million also significantly contributed to the change in working capital requirements.

Net cash flows from (used in) investing activities

For the year ended December 31, 2017, net cash flows used in investing activities was ₱670.0 million, which resulted from the increase in short-term investment by ₱230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱446.3 million and decrease in other non-current assets by ₱6.5 million.

For the year ended December 31, 2016, net cash flows generated from investing activities was ₱630.6 million, which resulted from the decrease in short-term investment by ₱1,700.0 million and partially offset by the additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱831.7 million and increase in other non-current assets by ₱237.7 million.

For the year ended December 31, 2015, net cash flows used in investing activities was ₱2,864.4 million, which is significantly due to the proceeds of the initial public offering placed under short-term investments amounting ₱2,225.0 million and additions to property and equipment for fit outs of new stores amounting to ₱635.6 million.

Net cash flows from (used in) financing activities

Net cash flows used in financing activities was ₱202.6 million for the year ended December 31, 2017, primarily as a result of payments of finance lease liability amounting to ₱31.1 million and payment of cash dividends amounting to ₱171.5 million declared on March 16, 2017.

Net cash flows used in financing activities was ₱1,172.5 million for the year ended December 31, 2016, primarily as a result of bank loan payments amounting to ₱950.0 million and payment of cash dividends amounting to ₱154.3 million declared on March 16, 2016.

Net cash flows from financing activities was ₱2,560.9 million for the year ended December 31, 2015, primarily due to net proceeds of ₱3,360.9 million from the issuance of capital stock by way of an initial public offering, bank loan payments of ₱1,600.0 million, offset by ₱1,450.0 million loan proceeds and payment of cash dividends amounting to ₱650.0 million declared in 2015.

Indebtedness

We have nil outstanding loans as of December 31, 2017 and December 31, 2016. Short-term loans payable were obtained to support working capital requirements.

Key Performance Indicators

	For the years ended December 31,		
	2017	2016	2015
The Company			
Net Sales ⁽¹⁾ (₱ millions)	35,015.7	34,410.9	32,304.5
Average Basket Size ⁽²⁾ (₱)	594.5	554.1	546.3
Same store sales growth ⁽³⁾ (%)	(0.7)	2.8	9.4
Number of Stores	52	50	46
Net selling area ⁽⁴⁾ (sqm)	228,980	224,835	201,820

Notes:

(1) Net sales are gross sales, net of discounts and returns.

(2) Average basket size is the amount of net sales divided by the number of transactions for a given period.

(3) Same store sales growth is the comparisons of net sales between two periods generated by the relevant stores. The stores that are included in comparisons are those that have operated for at least 12 months preceding the beginning of the last month of the reporting period. The comparison for each store takes into account net sales by that store during the same period it was in operation in both the reporting period and the period of comparison. The net sales of all the relevant stores in the relevant period are then aggregated and compared.

(4) Net selling space is the area of the store where items are displayed, excluding the backroom and warehouse.

Quantitative and qualitative disclosure of market risk

Our principal financial instruments consist of cash and receivables. The main purpose of our financial instruments is to fund our operations and capital expenditures. We do not actively engage in the trading of financial assets for speculative purposes nor do we write options. The main risks arising from our financial instruments are liquidity risk and credit risk. See Note 24 of the notes to our audited financial statements.

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Our exposure to liquidity risk relates primarily to our short-term credit obligations. We seek to manage our liquidity profile by maintaining cash at a certain level and ensuring the availability of ample unused revolving credit facilities from banks as back-up liquidity that will enable us to finance our general and administrative expenses and operations. We maintain a level of cash deemed sufficient to finance operations. As part of our liquidity risk management, we regularly evaluate our projected and actual cash flows.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Our receivables are actively monitored by our collection department to avoid significant concentrations of credit risk. We manage the level of credit risk we accept through comprehensive credit risk policies setting out the assessment and determination of what constitutes appropriate credit risk for us. Our policies include setting up of exposure limits by each counterparty or company of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

Trends, Events or Uncertainties that have had or that are reasonably expected to affect revenues and income

- (i) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material effect on Company's liquidity.
- (ii) There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- (iii) There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entries or other persons created during the reporting period.
- (iv) There are no material commitments for capital expenditures, general purposes of such commitments, expected sources of funds for such expenditures.
- (v) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material effect on Sales.
- (vi) The Company experiences seasonal fluctuations in operations. Historically, sales peak in December of each year, thereafter it slows down in the first quarter of the year and begins to increase in the second quarter, driven by the summer season, the school break in April and May, and particularly the beginning of the school year in the month of June. This is followed by a slowdown in sales in the third quarter due to the rainy season.

Item 6 Financial Statements and Supplementary Schedules

The financial statements are filed as part of this report.

Item 7 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

(A) External Audit Fees and Services

Audit and Audit - Related Fees

(B) External Audit Fees and Services

Please refer to page 17 of the SEC Form 20-IS.

PART III CONTROL AND COMPENSATION INFORMATION

Item 8 Directors and Executive Officers of the Issuer

(A) Board of Directors and Executive Officers of the Registrant

Please refer to pages 6-8 of the SEC Form 20-IS.

(B) Significant Employees

Please refer to page 12 of the SEC Form 20-IS.

(C) Family Relationships

Please refer to page 12 of the SEC Form 20-IS.

(D) Involvement in certain Legal Proceedings of Directors and Executive Officers

Please refer to page 12 of the SEC Form 20-IS.

Item 9 Executive Compensation

Please refer to pages 14-15 of the SEC Form 20-IS.

Item 10. Security Ownership of Certain Beneficial Owners and Management

Please refer to pages 4-6 of the SEC Form 20-IS.

Item 11. Certain Relationships and Related Transactions

Please refer to Note 19 of the Financial Statements for the Related Party Transactions.

PART IV CORPORATE GOVERNANCE

Please refer to the Company's Annual Corporate Governance Report.

PART V EXHIBITS AND SCHEDULES

Item 13 Exhibits and Reports on SEC Form 17-C

The table below lists the Company's Corporate Disclosures under SEC Form 17-C:

List of Corporate Disclosures/Replies to SEC Letters Under SEC Form 17-C January 1,-December 31, 2017	
DATE	SUBJECT
March 16, 2018	Approval of cash dividends amounting to Php 205,762,500

Item 14 Use of Proceeds

Attached, as Exhibit "C" is the Company's Disbursement of Proceeds and Progress Report duly certified by the Company's external Auditor.