

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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

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Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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COMPANY INFORMATION

Company's Email Address

**vicsal.sec
@metroretail.ph**

Company's Telephone Number

(032) 236-8390

Mobile Number

N/A

No. of Stockholders

23

Annual Meeting (Month / Day)

First Friday of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Joselito G. Orense

Email Address

**joel.orense
@metroretail.ph**

Telephone Number/s

(032) 236-7793

Mobile Number

N/A

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.

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **31 December 2020**
2. SEC Identification Number **CS200315877** 3. BIR Tax Identification No. **226-527-915**
4. Exact name of issuer as specified in its charter**METRO RETAIL STORES GROUP, INC.**

5. **Cebu , Philippines** 6. (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization Industry Classification Code:

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

8. **(032) 236-8390**
Issuer's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|-----------------------------------|---|
| Common Stock 3,429,375,000 | |

11. Are any or all of these securities listed on a Stock Exchange.
Yes [X] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

The Philippine Stock Exchange Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and [SRC Rule 17.1](#) thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

Shares Held by Non-Affiliates as of December 31, 2020	Market Value per Share as of March 31, 2021	Total Market Value
738,789,200	1.35	997,365,420

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

- (a) Any annual report to security holders;
- (b) Any [information statement](#) filed pursuant to [SRC Rule 20](#);
- (c) Any prospectus filed pursuant to [SRC Rule 8.1](#).

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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 - one of the fastest-growing geographic regions in the country. 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 stability and 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 2020, we had a total of ten (10) stores in Metro Manila and twelve (12) stores in other parts of Luzon with a total net selling space of approximately 118,230 sqm.

In addition, we have a total of thirty-four (34) stores in the Visayas, with a total net selling space of approximately 106,052 sqm. This brings our total store count in the Philippines to fifty-six (56), with a total net selling space of 224,282 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 31 supermarkets in the Visayas, Metro Manila, and the rest of Luzon. As of end of 2020, Metro Supermarket had a total net selling space of approximately 55,197 sqm and an average net selling space of 1,781 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 2020, we had 12 department stores in strategic locations throughout the country, with a total net selling space of 123,296 sqm and an average net selling space per store of 10,275 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 13 hypermarkets in key cities throughout the country with a total net selling space of 45,788 sqm and an average net selling space of 3,522 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 16 warehouses nationwide (5 in Luzon and 11 in Visayas) 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 5% of our fleet capacity nationwide. Our in-house trucks are GPS enabled. The balance 95% 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 Laguna to accommodate all the demand for warehousing and logistics requirements in Luzon 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 MRS GI;
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. MRS GI has received Good Manufacturing Practice (GMP) and Hazard Analysis and Critical Control Points (HACCP) certification for four (4) of our supermarkets – Metro Alabang Town Center, Metro Ayala Center Cebu, Metro Market! Market!, and recently in Metro Mandaue. We will continue to obtain and renew aforementioned certifications to uphold health and food safety for our customers.
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, and will implement omni-channel strategy to keep up with the fast rising preference of our customers for online shopping;
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 Markets; Robinsons Retail Holdings, Inc.; and Puregold Price Club, Inc. 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 neighborhood, 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 non-food 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 Holdings, Inc., 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 neighborhood, 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, Inc., SM Markets, and Prince Warehouse Club, Inc. 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 2,000 regular suppliers in 2020, Metro Supermarket's supplier base is diversified between local suppliers such as Monde Nissin Corporation and Universal Robina Corporation, and multinational corporations such as Nestle Philippines Inc., Unilever Philippines, Inc., and Procter & Gamble Philippines Inc. Metro Supermarket's top five suppliers together accounted for 22.4% of its net sales in 2020. 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 1,500 regular suppliers in 2020, Metro Department Store's supplier base includes suppliers such as Finden Technologies Inc., Electrolux Philippines, Inc., Atlas Home Products, Inc., Multiflex RNC Phils., Inc., and San-Yang Intertrade Corp. Metro Department Store's top five suppliers together accounted for approximately 8.5% of its net sales in 2020. 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., Universal Robina Corporation, Procter & Gamble Philippines Inc., and Monde Nissin Corporation are among the biggest suppliers of our hypermarket retail format. Super Metro's top five suppliers together accounted for approximately 19.7% of its net sales in 2020. We believe that our hypermarket business as a whole is not dependent on any single supplier.

f. Dependent upon single/few supplier/customer

MRS GI is not dependent on any single supplier. The Company's top five suppliers accounted for 18% of its net sales in 2020. 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, MRS GI adopted its Policy on Related-Party Transactions to ensure that these transactions are entered into at arm's length on terms no less favorable than terms available to any unconnected third party under the same or similar circumstances.

On September 5, 2019, MRS GI further adopted its Amended Policy on Related Party Transactions in Compliance to SEC Memorandum Circular 10 series of 2019.

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, 2020.

Store Operation	5,492
Warehouse Operation	598
Corporate	736
Total	6,826

We believe that we have a good relationship with our employees. We have always placed a high value on retention, as demonstrated by the fact that approximately 18% 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 Retail and SM Markets, 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 2020, we had fourteen (14) 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 80.4% and over 70.0% of our net sales for the year ended December 31, 2020 and 2019, respectively. 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 99.5% of our revenue in 2020 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 18% of our net sales for 2020. 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 2020, we leased all of our net selling space and all of our distribution centers. Approximately 14% of our sites are leased from related parties and 86% 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, 2020, 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:

		Low	High
January – March (Q1)	2018	3.23	3.95
April – June (Q2)	2018	2.54	3.60
July – September (Q3)	2018	2.40	3.04
October – December (Q4)	2018	1.91	2.57
January – March (Q1)	2019	2.45	3.36
April – June (Q2)	2019	2.42	3.54
July – September (Q3)	2019	2.32	2.87
October – December (Q4)	2019	2.59	2.05
January – March (Q1)	2020	1.15	2.19
April – June (Q2)	2020	1.38	1.99
July – September (Q3)	2020	1.30	1.79
October – December (Q4)	2020	1.24	1.74
January – March (Q1)	2021	1.22	1.55

On March 31, 2021, the Company's shares closed at Php 1.35 per share.

(B) Holders

The number of shareholders of record as of March 31, 2021 was twenty-three (23). Common shares outstanding as of March 31, 2021 were 3,417,375,000.

List of Stockholders of Record as of March 31, 2021

	Name of Stockholder	Number of Shares	Percentage to Total Outstanding
1	Vicsal Development Corporation	2,627,427,300	76.88%
2	PCD Nominee Corp. (Filipino)	686,636,251	20.00%
3	PCD Nominee Corp. (Non-Filipino)	81,240,471	2.38%
4	Valueshop Stores, Inc.	24,801,489	0.73%
5	Juan G. Yu or John Peter C. Yu	150,000	0
6	Francisco C. Tiu	75,000	0
7	Carlos Catangue Chua	24,000	0
8	Stephen T. Teo &/or Teresita R. Teo	10,000	0
9	Asuncion, Victor Jayo	5,000	0
10	Dennis Lim Lim	2,000	0

11	Legaspi, Virgilio C.	1,000	0
12	Duño, Elpidio S.	1,000	0
13	Lampa, Arvin C.	1,000	0
14	Valencia, Jesus San Luis	300	0
15	Herrera, Joselito C.	100	0
16	Au, Owen Nathaniel S. AU ITF: Li Marcus	78	0
17	Ang, Margaret G.	2	0
18	Gaisano, Jack S.	2	0
19	Gaisano, Edward S.	2	0
20	Gaisano, Frank S.	2	0
21	Manuel C. Alberto	1	0
22	Parayno Jr., Guillermo L.	1	0
23	Jacinto, Ricardo Nicanor N.	1	0
	Total	3,417,375,000	

(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 2017, 2018, 2019 and 2020:

Cash Dividend				
Year	Amount Declared	Dividend Per Share	Recorded Date	Payment Date
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
2019	P205,762,500.00	P0.06	April 15, 2019	May 2, 2019
2020	P205,762,500.00	P0.06	May 29, 2020	June 15, 2020

(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, 2020 compared with the year ended December 31, 2019

Revenue

Net Sales

For the year ended December 31, 2020, our net sales were ₱31,286.3 million, a decrease of 15.0% compared to ₱36,790.2 million for the year ended December 31, 2019.

Total food retail business increased by 1.1%, while total general merchandise business declined by 45.7% over the same period last year. In the middle of March 2020, department stores were temporarily closed brought about by the COVID-19 outbreak. These were gradually opened but were faced with customer traffic constraint since community quarantine is still in effect and as consumers prioritized the purchase of essential goods in general.

Blended same store sales declined by 19.3% over the same period last year brought about by the decline in sales of our general merchandise business.

Rental income

For the year ended December 31, 2020, our rental income was ₱146.8 million, a decrease of 42.6% compared to ₱255.8 million for the year ended December 31, 2019. Decrease in rental income is primarily due to the temporary closure of non-essential tenants as a result of the community quarantine brought about by the COVID-19 outbreak, as well as, rental concessions extended to tenants who continued to operate.

Costs and expenses

Cost of sales

For the year ended December 31, 2020, our cost of sales was ₱24,960.2 million, a decrease of 12.7% compared to ₱28,592.5 million for the year ended December 31, 2019. Cost of sales declined slower than net sales since the food business which typically has a higher cost of sales compared to our general merchandise business continued to thrive despite the COVID-19 outbreak, while our general merchandise business declined.

Operating expenses

For the year ended December 31, 2020, our operating expenses were ₱6,775.5 million, a decrease of 8.3% compared to ₱7,390.2 million for the year ended December 31, 2019.

The decrease in operating expenses was primarily driven by the disrupted operations of department stores due to COVID-19 pandemic, offset by the recognition of non-recurring expenses in connection with the streamlining of operations and rationalization of stores and workforce of the Company in response to the impact of COVID-19 pandemic amounting to ₱270.2 million.

Interest and other income

For the year ended December 31, 2020, our interest and other income was ₱269.2 million, a decrease of 62.0% compared to ₱709.3 million for the year ended December 31, 2019.

The decrease is caused by the timing of recognition of recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that

were damaged by fire in January 2018. This amounted to ₱104.4 million and ₱538.7 million for the year ended December 31, 2020 and 2019, respectively.

In addition, there is a decrease in interest income due to lower placements coupled with lower interest rates which ranges from 0.1% to 4.5% this year. This amounted to ₱50.8 million and ₱101.9 million in 2020 and 2019, respectively.

Finance costs

For the year ended December 31, 2020, our finance costs were ₱512.2 million, a decrease of 15.7% compared to ₱607.5 million for the year ended December 31, 2019. The decrease is primarily driven by the decrease in finance cost related to lease liabilities, offset with the increase on finance costs related to the Company's outstanding loans payable.

Provision for (benefit from) income tax

For the year ended December 31, 2020, our benefit from income tax was ₱95.9 million, a decrease of 124.6% compared to the provision for income tax of ₱389.4 million for the year ended December 31, 2019. The decrease in provision for income tax was primarily due to the decrease in income before tax.

Net income (loss)

As a result of the foregoing, for the year ended December 31, 2020, net loss was ₱449.6 million, a decrease of 158.0% compared to the net income of ₱775.6 million for the year ended December 31, 2019.

The year ended December 31, 2019 compared with the year ended December 31, 2018

In 2019, the Company's operating income increased by 21.5% driven mainly by the 11.3% increase in Revenue and lower increase rates of operating expenses at 9.3%.

The Company recognized additional insurance recoveries which accounts mainly for the 44.6% increase in Interest and other income, but were offset by the prospective adoption of PFRS 16, Leases which resulted to a significant increase in recognition of finance cost on related lease liabilities. Net income after tax after these two significant adjustments resulted to a decrease of 19.7%.

Excluding the impact of the adoption of PFRS 16, the Company's Operating income and Net income would have increased by 13.7% and 18.0%, respectively.

	2019			2018	2019 versus 2018 %	
	As reported	Before PFRS 16	Effect of adoption		Increase/(Decrease) As reported	Before PFRS 16
REVENUE						
Net Sales	36,790.2	36,790.2	–	33,050.1	11.3%	11.3%
Rentals	255.8	255.8	–	233.7	9.5%	9.5%
	<u>37,046.0</u>	<u>37,046.0</u>	<u>–</u>	<u>33,283.8</u>	<u>11.3%</u>	<u>11.3%</u>
COSTS AND EXPENSES						
Cost of sales	28,592.5	28,592.5	–	25,650.0	11.5%	11.5%
Operating expenses	7,390.2	7,458.8	(68.6)	6,758.8	9.3%	10.4%
	<u>35,982.7</u>	<u>36,051.3</u>	<u>(68.6)</u>	<u>32,408.8</u>	<u>11.0%</u>	<u>11.2%</u>
Operating Income	1,063.3	994.7	68.6	875.0	21.5%	13.7%
OTHER INCOME (CHARGES)						
Interest and other income	709.3	709.3	–	490.6	44.6%	44.6%
Finance costs	(607.5)	(19.3)	588.2	(19.0)	3,097.4%	1.6%
	<u>101.8</u>	<u>690.0</u>	<u>588.2</u>	<u>471.6</u>	<u>-78.4%</u>	<u>46.3%</u>
Income before income tax	1,165.1	1,684.6	(519.5)	1,346.6	-13.5%	25.1%
Provision for income tax	389.4	545.3	(155.9)	381.2	2.15%	43.0%
Net income	<u>775.7</u>	<u>1,139.4</u>	<u>(363.7)</u>	<u>965.4</u>	<u>-19.7%</u>	<u>18.0%</u>

Revenue

Net Sales

For the year ended December 31, 2019, our net sales were ₱36,790.2 million, an increase of 11.3% compared to ₱33,050.1 million for the year ended December 31, 2018. The opening of four (4) new stores and the partial re-opening of the fire-damaged supermarket and department store boosted sales, in addition to the same store sales growth of 2.2%.

Rental income

For the year ended December 31, 2019, our rental income was ₱255.8 million, an increase of 9.4% compared to ₱233.8 million for the year ended December 31, 2018. Increase in rental income is primarily due to the opening of new stores and partial re-opening of the fire-damaged supermarket and department store, which increased net leasable space, coupled with increase in rental fees due to escalation clauses in our existing lease agreements.

Costs and expenses

Cost of sales

For the year ended December 31, 2019, our cost of sales was ₱28,592.5 million, an increase of 11.5% compared to ₱25,650.0 million for the year ended December 31, 2018. Cost of sales grew slightly faster than net sales due to faster rate of growth of our food retail business, which typically have a higher cost of sales compared to our general merchandise.

Operating expenses

For the year ended December 31, 2019, our operating expenses were ₱7,390.2 million, an increase of 9.3% compared to ₱6,758.8 million for the year ended December 31, 2018. The increase in operating expenses was primarily driven by the opening of new stores, as well as, the partial re-opening of the fire-damaged supermarket and department store, offset by the effect of PFRS 16 *Leases* adoption as at January 1, 2019.

Operating expenses for same stores, warehouses and shared services grew by 3.1% lower than the increase in sales due to increased efficiency, cost saving measures and closure of a non-performing store in 2018.

Interest and other income

For the year ended December 31, 2019, our interest and other income was ₱709.3 million, an increase of 44.6% compared to ₱490.6 million for the year ended December 31, 2018.

The increase was primarily due to recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to ₱538.7 million and ₱350.7 million in 2019 and 2018, respectively.

In addition, there was an increase in interest income from money market placements due to higher placements and interest rates in 2019. This amounted to ₱101.9 million and ₱75.1 million in 2019 and 2018, respectively.

Finance costs

For the year ended December 31, 2019, our finance costs were ₱607.5 million, an increase of 3097.4% compared to ₱19.0 million for the year ended December 31, 2018. The increase in finance costs is primarily driven by the adoption of PFRS 16 *Leases* as at January 1, 2019.

Provision for income tax

For the year ended December 31, 2019, our provision for income tax was ₱389.4 million, an increase of 2.2% compared to ₱381.2 million for the year ended December 31, 2018. Although, there is a decrease in income before tax in 2019, Provision for income tax increased due to the tax effects of nondeductible expenses, income subject to final tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2019, Net income was ₱775.6 million, a decrease of 19.7% compared to ₱965.4 million for the year ended December 31, 2018.

The year ended December 31, 2018 compared with the year ended December 31, 2017

Revenue

Net Sales

For the year ended December 31, 2018, our net sales were ₱33,050.1 million, a decrease of 5.6% compared to ₱35,015.7 million for the year ended December 31, 2017. The decrease was largely due to the combined effect of a temporary closure of a supermarket and department store that were damaged by fire, discontinuance of operation of a non-performing hypermarket and rationalization of sales to resellers which were not profitable. The same caused the transaction count and average basket size to fall by 4.9% and 0.7%, respectively, in 2018 as compared to 2017. A more focused marketing and sales efforts resulted to an increase of 5.1% on the same stores sales in 2018.

Rental income

For the year ended December 31, 2018, our rental income was ₱233.8 million, a decrease of 22.0% compared to ₱299.9 million for the year ended December 31, 2017. The decrease was largely due to a decrease in net leasable space resulting from a temporary closure of a supermarket and department store. This is despite the increase in rental fees from the escalation clauses in our existing lease agreements in the remaining stores.

Costs and expenses

Cost of sales

For the year ended December 31, 2018, our cost of sales was ₱25,650.0 million, a decrease of 6.5% compared to ₱27,443.4 million for the year ended December 31, 2017. This results to an improvement in gross margin as the decline in cost of sales is greater than the decline in net sales. The margin improvement was driven by a well-executed enhancement plan that included among others, negotiation with suppliers and rationalization of unprofitable sales to resellers.

Operating expenses

For the year ended December 31, 2018, our operating expenses were ₱6,758.8 million, an increase of 2.5% compared to ₱6,596.9 million for the year ended December 31, 2017. The increase in operating expenses was primarily due to increases in insurance, taxes and licenses, professional fees and personnel cost due to opening of new stores and salary rate adjustments.

Interest and other income

For the year ended December 31, 2018, our interest and other income was ₱490.6 million, an increase of 255.5% compared to ₱138.0 million for the year ended December 31, 2017. The increase in interest and other income was primarily due to recovery from insurance claims of the company against insurance coverage for inventories, properties and business interruptions of a supermarket and department store that were damaged by fire.

Finance costs

For the year ended December 31, 2018, our finance costs were ₱19.0 million, an increase of 8.0% compared to ₱17.6 million for the year ended December 31, 2017. The increase in finance costs is primarily driven by the increase in interest payments for credit cash bonds of credit account holders.

Provision for income tax

For the year ended December 31, 2018, our provision for income tax was ₱381.2 million, a decrease of 9.0% compared to ₱418.8 million for the year ended December 31, 2017. The decrease in provision

for income tax was primarily due to the decrease 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, 2018, our net income was ₱965.4 million, a decrease of 1.2% compared to ₱977.0 million for the year ended December 31, 2017.

Financial Position

The year ended December 31, 2020 compared with the year ended December 31, 2019

As of December 31, 2020 and 2019, our net current assets, or the difference between total current assets and total current liabilities, were ₱2,996.5 million and ₱3,123.8 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, 2020 and 2019 were ₱9,722.5 million and ₱9,816.0 million, respectively. The decrease of 1.0% in current assets is due to the decrease in receivables and cash and cash equivalents, offset by the increase in short-term investment, inventories and other current assets.

As of December 31, 2020, short-term investment totaled ₱1,270.6 million, receivables totaled ₱672.1 million, merchandise inventories totaled ₱4,981.6 million and other current assets totaled ₱540.9 million. As of December 31, 2019, short-term investment totaled ₱629.6 million, receivables totaled ₱1,146.3 million, merchandise inventories totaled ₱4,636.6 million and other current assets totaled ₱494.4 million.

As of December 31, 2020, cash and cash equivalents amounted to ₱2,257.3 million, a decrease of 22.4% from ₱2,909.1 million as of December 31, 2019. The decrease were mainly attributable to the additions to property and equipment amounting to ₱737.2 million, increase in short-term investments of ₱641.1 million, dividend payment amounting to ₱205.8 million and payment for lease liabilities of ₱1,002.0 million, offset by the loan proceeds of ₱1,500.0 million and ₱472.4 million cash provided by operating activities.

Noncurrent Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets—net and other non-current assets. Total noncurrent assets as of December 31, 2020 and 2019 were ₱11,651.4 million and ₱13,548.6 million, respectively. The decrease of 14.0% in noncurrent assets is significantly due to the movement in right-of-use assets as a result of lease modifications, recognition of allowance for impairment losses, as well as, the depreciation and amortization.

Current Liabilities

Total current liabilities as of December 31, 2020 and 2019 were ₱6,726.0 million and ₱6,692.2 million, respectively. As of December 31, 2020 and 2019, trade and other payables totaled ₱4,642.3 million and ₱5,409.5 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to ₱1,500.0 million and nil as of December 31, 2020 and 2019, respectively.

Noncurrent Liabilities

Total noncurrent liabilities as of December 31, 2020 and 2019 were ₱6,111.6 million and ₱7,436.4 million, respectively. The decrease of 17.8% in noncurrent liabilities is significantly due to the movement in lease liabilities as a result of lease modifications.

The year ended December 31, 2019 compared with the year ended December 31, 2018

As of December 31, 2019 and 2018, our net current assets, or the difference between total current assets and total current liabilities, were ₱3,123.8 million and ₱4,730.3 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, 2019 and 2018 were ₱9,816.0 million and ₱9,420.9 million, respectively. The increase of 4.2% in current assets is due to the increase in inventories and short-term investments, offset by the decrease in receivables and cash and cash equivalents.

As of December 31, 2019, short-term investment totaled ₱629.6 million, receivables totaled ₱1,146.3 million, merchandise inventories totaled ₱4,636.6 million and other current assets totaled ₱494.4 million. As of December 31, 2018, short-term investment totaled ₱358.4 million, receivables totaled ₱1,371.6 million, merchandise inventories totaled ₱3,589.6 million and other current assets totaled ₱495.1 million.

As of December 31, 2019, cash and cash equivalents amounted to ₱2,909.1 million, a decrease of 19.3% from ₱3,606.2 million as of December 31, 2018. The decrease were mainly attributable to the additions to property and equipment amounting to ₱1,942.4 million, dividend payment amounting to ₱205.8 million and payment for lease liabilities of ₱1,300.3 million but were offset by the ₱3,297.7 million generated from operating activities.

Noncurrent Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets—net and non-current assets. Total noncurrent assets as of December 31, 2019 and 2018 were ₱13,548.6 million and ₱4,447.5 million, respectively. The increase of 2046.3% in noncurrent assets is significantly due to the recognition of right-of-use assets as result of adoption of PFRS 16, Leases, applied prospectively.

Current Liabilities

Total current liabilities as of December 31, 2019 and 2018 were ₱6,692.2 million and ₱4,690.6 million, respectively. As of December 31, 2019 and 2018, trade and other payables totaled ₱5,409.5 million and ₱4,392.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Noncurrent Liabilities

Total noncurrent liabilities as of December 31, 2019 and 2018 were ₱7,436.4 million and ₱474.9 million, respectively. The increase of 1465.9% in noncurrent liabilities is significantly due to the recognition of lease liabilities as result of adoption of PFRS 16, Leases, applied prospectively.

The year ended December 31, 2018 compared with the year ended December 31, 2017

As of December 31, 2018 and 2017, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,730.3 million and ₱5,273.4 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, 2018 and 2017 were ₱9,420.9 million and ₱9,660.0 million, respectively. The decrease of 2.5% of current assets is due to the decrease in short-term investments and inventories.

As of December 31, 2018, short-term investment totaled ₱358.4 million, receivables totaled ₱1,371.6 million, merchandise inventories totaled ₱3,589.6 million and other current assets totaled ₱495.1 million. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱878.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱316.7 million.

As of December 31, 2018, cash and cash equivalents amounted to ₱3,606.2 million, a decrease of 2.7% from ₱3,707.2 million as of December 31, 2017. The decrease were mainly attributable to the additions to property and equipment amounting to ₱1,447.7 million and dividend payment amounting to ₱205.8 million but were offset by the ₱1,450.2 million generated from operating activities.

Current Liabilities

Total current liabilities as of December 31, 2018 and 2017 were ₱4,690.6 million and ₱4,386.6 million, respectively. As of December 31, 2018 and 2017, trade and other payables totaled ₱4,392.3 million and ₱4,167.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Cash Flows

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

	For the years ended December 31,		
	2020	2019	2018
	(P million)		
Net cash flows generated from operating activities	P472.4	P3,297.7	P1,450.2
Net cash flows used in investing activities	(1,410.3)	(2,480.2)	(1,352.2)
Net cash flows provided (used in) financing activities	292.2	(1,506.1)	(219.6)
Net decrease in cash	<u>(P645.7)</u>	<u>(P688.6)</u>	<u>(P121.6)</u>

In 2019, the Company's net cash flows generated from operating activities significantly increased by 127.4%, while net cash used in financing activities increased by 585.8%. This is a result of the adoption of PFRS 16, Leases, applied prospectively. The Standard requires companies to present payments to lease liabilities within financing activities.

Had there been no adoption of PFRS 16, net cash flows generated from operating activities would have increased by 38.7% only, while net cash used in financing activities increased by 0.1%.

	For the year ended December 31, 2019		
	As reported	Before PFRS 16	Effect of adoption
	(P million)		
Net cash flows generated from operating activities	P3,297.7	P2,011.4	(P1,286.3)
Net cash flows used in investing activities	(2,480.2)	(2,480.2)	-
Net cash flows used in financing activities	(1,506.1)	(219.8)	1,286.3
Net decrease in cash	<u>(P688.6)</u>	<u>(P688.6)</u>	<u>P-</u>

Net cash flows from operating activities

Our net cash flows from operating activities for the year ended December 31, 2020 was P472.4 million, which is comprised of operating income before working capital changes of P1,603.6 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the decrease in trade and other payables of P834.5 million, increase in merchandise inventory of P390.5 million and increase in other current assets of P22.3 million, offset by the decrease in receivables of P339.3 million.

Our net cash flows from operating activities for the year ended December 31, 2019 was P3,297.7 million, which is comprised of operating income before working capital changes of P2,935.0 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in trade and other payables of P1,016.7 offset by the increase in merchandise inventories of P1,047.0 million and receivables of P124.6 million.

Our net cash flows from operating activities for the year ended December 31, 2018 was P1,450.2 million, which is comprised of operating income before working capital changes of P1,494.7 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in other current assets amounting to P184.4 million and decrease in merchandise inventories of P112.4 million, as well as, the increase in trade and other payables and contract liabilities of P221.7 million and P103.2 million, respectively.

Net cash flows used in investing activities

For the year ended December 31, 2020, net cash flows used in investing activities was ₱1,410.3 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to ₱737.2 million, increase in short-term investments by ₱641.1 million and increase in other noncurrent assets by ₱32.1 million.

For the year ended December 31, 2019, net cash flows used in investing activities was ₱2,480.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to ₱1,942.4 million, increase in other noncurrent assets by ₱266.7 million due to advance payments to suppliers for purchases of property and equipment, and increase in short-term investments by ₱271.1 million.

For the year ended December 31, 2018, net cash flows used in investing activities was ₱1,352.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to ₱1,447.7 million and increase in other noncurrent assets by ₱434.7 million due to advance payments to suppliers for purchases of property and equipment, and offset by the decrease in short-term investments by ₱396.8 million and proceeds from insurance claims on property and equipment by ₱133.4 million.

Net cash flows used in financing activities

Net cash flows generated from financing activities was ₱292.2 million for the year ended December 31, 2020, as a result of proceeds from loan of ₱1,500.0 million offset by payments of lease liabilities amounting to ₱1,002.0 million and payment of cash dividends amounting to ₱205.8 million declared on May 14, 2020.

Net cash flows used in financing activities was ₱1,506.1 million for the year ended December 31, 2019, as a result of payments of lease liabilities amounting to ₱1,300.3 million and payment of cash dividends amounting to ₱205.8 million declared on March 18, 2019.

Net cash flows used in financing activities was ₱219.6 million for the year ended December 31, 2018, as a result of payments of finance lease liability amounting to ₱13.9 million and payment of cash dividends amounting to ₱205.8 million declared on March 16, 2018.

Indebtedness

Outstanding loans payable amounted to ₱1,500.00 million as of December 31, 2020 and nil as of December 31, 2019 and 2018.

Key Performance Indicators

	For the years ended December 31,		
	2020	2019	2018
The Company			
Net Sales ⁽¹⁾ (₱ millions)	31,286.3	36,790.2	33,050.1
Average Basket Size ⁽²⁾ (₱)	929.5	622.5	590.2
Same store sales growth ⁽³⁾ (%)	-19.3%	2.2%	5.1%*
Number of Stores	56*	57*	53*
Net selling area ⁽⁴⁾ (sqm)	224,282	234,893	194,536

**excludes discontinued operations and temporary closure of stores*

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 cash equivalent, short-term investment 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 27 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

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	2020	2019	2018
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	1,890,000	₱2,079,000	₱2,079,000
Professional Fees related to the Initial Public Offering	–	–	–
Fees for tax-related services	964,430	150,000	–
All Other Fees	123,200	–	145,000
Total	₱2,977,630	₱2,229,000	₱2,224,000

All Other Fees pertain to fees paid by the Company for the certification of the Company's Disbursement of IPO Proceeds and Progress Report.

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, 2020, 2019, and 2018.

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 approve and ratify the recommendation of the Audit and Risk Committee during the Annual Stockholders' Meeting.

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

1. 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	63	Filipino	Chairman
2. Jack S. Gaisano	67	Filipino	Director
3. Edward S. Gaisano	65	Filipino	Director
4. Margaret G. Ang	69	Filipino	Director
1. Manuel C. Alberto	55	Filipino	Director
6. Guillermo L. Parayno, Jr.	72	Filipino	Independent Director
7. Ricardo Nicanor N. Jacinto	60	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. Manuel C. Alberto was elected as Director on December 17, 2018, and assumed the position effective January 1, 2019, to fill in the vacancy in the Board due to the retirement of Mr. Arthur Emmanuel. The independent directors, Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, were elected on July 16 and 27, 2015, respectively. All Board Members were re-elected to the Board during the last Annual Stockholders' Meeting held on September 25, 2020.

There are no other directors who 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, 63, 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, 67, 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, 65, 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 member of the Society of Fellows of the Institute of Corporate Directors.

Margaret G. Ang, 69, 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, Corporate Secretary and Treasurer 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.

Manuel C. Alberto, 55, was elected as Director of the Company, and appointed as President and Chief Operating Officer, on December 17, 2018, and assumed the position effective January 1, 2019, replacing Mr. Arthur Emmanuel who retired on December 31, 2018. Before his election/appointment as President and Chief Operating Officer, he served as the Company's Chief Merchandising and Marketing Officer. He earned his Bachelor of Arts in Communication (1989) from Santa Clara University, California, USA and obtained his Master's degree in Management (1998) from the Asian Institute of Management. Before joining the Company, he served as President & General Manager of Philippine FamilyMart Inc. (2014-2018), VP & Business Unit Head (2013-2015) & VP of Operations (2001-2010) of Rustan Supercenters, Inc., National Operation Director of Jollibee Foods Corp (2010-2013), Store General Manager of Pilipinas Makro Inc. (1998-2001) and Store Manager of Stroud's Linen, USA.

Ricardo Nicanor N. Jacinto, 60, 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 an Executive Director of Torre Lorenzo Development Corp, a Director of SBS Philippines Corporation, SBS Holdings and Enterprises Corporation and Executive Director and Chairman of Maybank ATR Kim Eng Securities, Inc., an Independent Director of Etiqa Life and General Assurance Philippines, Inc., and the Trustee of the Judicial Reform Initiative and Institute of Corporate Directors, and a Professorial Lecturer I of University of the Philippines – Cesar EA Virata School of Business. Mr. Jacinto previously served as CEO of the Institute of Corporate Directors (2012-2017) and Managing Director of Ayala Corporation (1997-2011). During the last two years of his tenure at Ayala Corporation, he was seconded to Habitat for Humanity as its Executive Director.

Guillermo L. Parayno, Jr., 72, was elected as an independent Director of the Company on July 16, 2015. Mr. Parayno is also the Chairman and CEO 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 and 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.

2. Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Nationality</u>	<u>Position</u>
Frank S. Gaisano	63	Filipino	Chairman & Chief Executive Officer
Manuel C. Alberto	55	Filipino	President & Chief Operating Officer
Joselito G. Orense	55	Filipino	Treasurer & Chief Financial Officer
Vincent E. Tomaneng	53	Filipino	Corporate Secretary and Chief Legal Counsel
Tara Tsarina B. Perez- Retuya	37	Filipino	Assistant Corporate Secretary & Compliance Officer

Brief Description - Officers

Joselito G. Orense, 55, 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, 53, 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, and Corporate Secretary of HTLand, Inc. from 2014, a Director of Pacific Mall Corporation from 2010, and the Vice-President-External of Vicsal Foundation, Incorporated since February 2021.

Tara Tsarina B. Perez-Retuya, 37, 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).

(B) Significant Employees

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

(C) 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.

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

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.

There are no material pending legal proceedings to which the Company or any of its subsidiaries and affiliates is a party.

Item 9 Executive Compensation

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 (2021):

Name	Position	Year	Aggregate Salary (Annual)	Bonus	Other Annual Compensation
Frank S. Gaisano	Chairman and Chief Executive Officer	2020	Php 53,745,447.48	-	6,715,171.91
Manuel C. Alberto	President and Chief Operating Officer	2020			
Conchita G. Lazaro	Deputy Chief Marketing and Merchandising Officer	2020			
Joselito G. Orense	Chief Financial Officer and Treasurer	2020			
Jonathan Juan DC Moreno	Chief Strategy and Governance Officer	2020			
All Other Officers and Directors as a Group Unnamed		2020	Php 4,581,495.44	-	-

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 2018, 2019 and 2020, and for the ensuing year 2021:

Name	Year	Aggregate Salary (Annual)	Bonus	Other Annual Compensation
Chairman and Chief Executive Officer and the four most highly compensated executive officers named above	2018 (Actual)	50,601,389.82	1,607,666.00	5,837,399.18
	2019 (Actual)	55,378,513.98	-	6,159,231.46
	2020 (Actual)	53,745,447.48	-	6,715,171.91
	2021 (Projected)	55,378,513.98	-	7,915,171.91
All other Officers and Directors as a Group Unnamed	2018 (Actual)	4,227,222.34	-	-
	2019 (Actual)	4,032,179.30	-	-
	2020 (Actual)	4,581,495.44	-	-
	2021 (Projected)	2,570,512.92	-	-

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)

The total director's fees paid for each of the Company's directors as of December 31, 2020 is as follows:

Name of Director	Total Director's Fees (in Php)
Frank S. Gaisano <i>Chairman & Chief Executive Officer</i>	107,692.27
Jack S. Gaisano <i>Director</i>	55,555.55
Edward S. Gaisano <i>Director</i>	77,777.70
Margaret G. Ang <i>Director</i>	77,777.70
Manuel C. Alberto <i>President & Chief Operating Officer</i>	107,692.27
Guillermo L. Parayno, Jr. <i>Independent Director</i>	1,412,000.00
Ricardo Nicanor N. Jacinto <i>Independent Director</i>	1,530,000.00

Other Arrangements

Except for Mr. Frank S. Gaisano and Mr. Manuel C. Alberto, who receive monthly 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.

Item 10. Security Ownership of Certain Beneficial Owners and Management

(A) Security Ownership of Certain Record and Beneficial Owners holding more than 5% of the Company’s voting securities as of December 31, 2020

As of December 31, 2020, 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	2,627,427,300	76.62%
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	656,780,021	19.15%
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	120,096,701	3.50%

Notes:

1. Vicsal Development Corporation (VDC) is the principal stockholder of the Company.
2. PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation’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. Out of the Top 100 PDTC Participants, the following participants hold for various trust accounts the following shares of the Corporation as of December 31, 2020:

Name of Participant	Shareholdings	Shareholdings
COL Financial Group, Inc.	156,918,463	20.20%
AB Capital Securities, Inc.	100,206,506	12.90%
BPI Securities Corporation	93,550,385	12.04%
Abacus Securities Corporation	56,707,001	7.30%
Deutsche Bank Manila-Clients A/C	41,961,470	5.40%
First Metro Securities Brokerage Corp.	37,304,305	4.80%
The Hongkong and Shanghai Banking Corp. Ltd. – Clients A/C	31,186,700	4.01%

(B) Security Ownership of Management as of December 31, 2020

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	30,448,000	Filipino	.89%
Common	Edward S. Gaisano	Director	75,002	0	Filipino	0
Common	Margaret G. Ang	Director	2	6,834,000	Filipino	.2%
Common	Jack S. Gaisano	Director	2	0	Filipino	0
Common	Manuel C. Alberto	President and Chief Operating Officer	1	0	Filipino	0
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	500,000	0	Filipino	0.01%
Common	Tara Tsarina B. Perez-Retuya	Asst. Corporate Secretary and Compliance Officer	0	0	Filipino	0

(C) Voting Trust Holders of 5% or more - as of December 31, 2020

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

(E) Changes in Control

As of December 31, 2020, there has been no change in the control of the Corporation since the beginning of its last fiscal year.

Item 11. Certain Relationships and Related Transactions

Please refer to Note 22 of the Financial Statements for the Related Party Transactions.

PART IV CORPORATE GOVERNANCE

Item 12. Corporate Governance

Please refer to the attached 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:

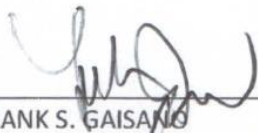
List of Corporate Disclosures/Replies to SEC Letters Under SEC Form 17-C January 1,-December 31, 2020	
DATE	SUBJECT
May 14, 2020	Approval of cash dividends amounting to Php 205,762,500

Item 14 Use of Proceeds

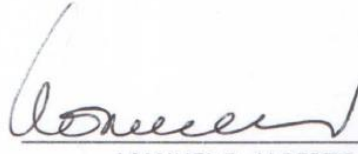
Please refer to the attached Company's Disbursement of Proceeds and Progress Report as of December 31, 2020 duly certified by the Company's external Auditor.

Pursuant to the requirement of Section 17 of the Code and Section 141 of the Corporate Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Cebu on March 24, 2021.


By:



FRANK S. GAISANO
Chairman and Chief Executive Officer



MANUEL C. ALBERTO
President and Chief Operating Officer



JOSELITO G. ORENSE
Treasurer and Chief Financial Officer




VINCENT E. TOMANENG
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 25 MAR 2021 day of 20 affiants exhibiting to me their respective Philippine passports as follows.

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	P5597665A	12 JAN 2018	DFA NCR South
Manuel C. Alberto	P7710412A	28 JUN 2018	DFA NCR South
Joselito G. Orense	P8825848A	20 SEP 2018	DFA NCR South
Vincent E. Tomaneng	P6261118	02 MAR 2018	DFA CEBU

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Series of 2021


ATTY. CONBERTO P. FACINABAO
NOTARY PUBLIC for in Taguig
Until June 30, 2021
IBP OR No. 127042 / Rizal 08-27-2020
PTR No. A-5064300 / 01-04-2021 Taguig City
IBP Roll No. 29548
FTI Old Admin. Bldg. FTI Complex, Taguig City

SUSTAINABILITY REPORT

2020

Company Details	
Name of Organization	Metro Retail Stores Group, Inc. (MRSGI)
Location of Headquarters	Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu, Philippines
Location of Operations	Various location across Luzon and Visayas
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	Limited to Metro Retail Stores Group, Inc.
Business Model, including Primary Activities, Brands, Products, and Services	To buy, sell, trade, deal in and deal with goods, wares and merchandise of every kind and description, and to carry on such business as wholesalers, retailers, importers and exporters; to acquire all such merchandise, supplies, materials, and other articles as shall be necessary in the conduct or to carry on the business of a supermarket and department store operator.
Reporting Period	2020
Highest Ranking Person responsible for this report	Chief Strategy and Governance Officer

**If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics. ¹
<p>MRSGI's primary operation is retail operations through its Metro Department Stores, Metro Supermarket, and Super Metro Hypermarket brand. Materiality is limited to operational matters which have actual and relevant impact on environment, social, and community.</p> <p>Economic, environmental, and social impacts that influence the decision of stakeholders were considered in identifying material topics.</p>

¹ See [GRI 102-46](#) (2016) for more guidance.

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	31,433,156,470	PhP
Direct economic value distributed:		
a. Operating costs	4,321,260,936	PhP
b. Employee wages and benefits	1,983,229,451	PhP
c. Payments to suppliers, other operating costs	26,316,314,383	PhP
d. Dividends given to stockholders and interest payments to loan providers	227,708,101	PhP
e. Taxes given to government	802,117,818	PhP
f. Investments to community (e.g. donations, CSR)	7,000,000	PhP

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Primary business operations; Impact is caused by the Company's business relationship	Employees, Customers, Suppliers, and Government	The Company always strive to provide quality products and customer experience through its stores. MRSGL also aims to be a responsible corporate citizen by providing career development to our employees, mutually beneficial relationship with our suppliers, and compliant corporate entity.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Risk of loss of business due to competition	Employees, Customers, Suppliers, and Government	The Company's internal policies ensures that our stores are efficiently run, prices of goods remain competitive, and agreements & requirements are met/fulfilled.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Opportunity to provide better Customer and Partner Experience	Employees, Customers, Suppliers, and Government	The Company's Management team regularly conducts internal assessments on how to improve corporate & in-store experience as well as our relationship with suppliers and regulators.

Climate-related risks and opportunities²

Governance	Strategy	Risk Management	Metrics and Targets
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
Recommended Disclosures			
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

Note: The Company currently does not have sufficient information to fully assess its climate-related risks and opportunities. The Company have yet to implement an integrated program that will monitor and measure climate-related risks and opportunities through a pre-agreed set of metrics and milestones.

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	For trade items, our sales is generated at around 94% for local suppliers; 6% for import.	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
MRSGL's suppliers' base is diversified between local suppliers and multinational corporations.	Suppliers	Maintain its close relationship with its concessionaires and suppliers to ensure continuous offering of broad range of products.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
No risk identified.	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Product offering will not be limited.	Customers	Non-dependency on single supplier.

² Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	Nil	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	Nil	%
Percentage of directors and management that have received anti-corruption training	Nil	%
Percentage of employees that have received anti-corruption training	Nil	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Primary Business of Operations	Employees, Supplier, and Government	MRSGL implements stringent policies and mechanisms such as: Whistleblower Policy, Related-party Transaction Policy, No-gift Policy, among others;
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Risk of MRSGL employees and engaging in corrupt business practices	Employees, Supplier, and Government	The Company policies are routinely cascaded to employees and suppliers and are posted around the Corporate Offices; these policies are also discussed during new employee on-boarding.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	Nil	#
Number of incidents in which employees were dismissed or disciplined for corruption	Nil	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	Nil	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Primary Business of Operations	Employees, Supplier, and Government	MRSGL implements stringent policies and mechanisms such as: Whistle-blower Policy, Related-party Transaction Policy, No-gift Policy, among others
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Risk of MRSGL employees and engaging in corrupt business practices	Employees, Supplier, and Government	The Company policies are made available through on-boarding activities, email, physical post on bulletin boards in the Corporate Offices; these policy employs strict penalties against any employees who engages in corrupt practices
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

ENVIRONMENT

Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	2,524.28	GJ
Energy consumption (gasoline)	91.85	GJ
Energy consumption (LPG)	26,732.00	kg
Energy consumption (diesel)	122,683.00	kg
Energy consumption (electricity)	83,384,668.00	kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)	(34.66)	GJ
Energy reduction (LPG)	(21,862.70)	kg
Energy reduction (diesel)	27,500.89	kg
Energy reduction (electricity)	(13,194,552.92)	kWh

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Most of the energy consumptions for the year 2020 were reduced brought about by the pandemic, i.e., proportion to the lesser operating time. Increase in diesel consumptions was because of longer genset operations due to power outage brought by the successive typhoons that hit Luzon.	All MRSGI stores.	The management's involvement is the application of new normal operation to lessen the impact of lost sales.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Lesser time of equipment operation means prolonged life span.	All MRSGI stores.	Lesser OPEX subject to approvals.

Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	64,030	m ³
Water consumption	516,586	m ³
Water recycled and reused	838	m ³

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Using deep well water supply reduces the overall water consumption supplied by the water district. The organization's involvement is to invest in exploring the possibility of building the deep well source facility.	MRSGL stores located in Colon, Mandaue, Mambaling and Carmen, all in Cebu, and Lucena in Luzon.	Lower OPEX.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Water consumption savings.	Same stores above.	Lower OPEX.

Materials used by the organization

Disclosure	Quantity	Units
Materials used by weight or volume	N/A	
<ul style="list-style-type: none"> Renewable 	Solar Panel Source	kg/liters
<ul style="list-style-type: none"> non-renewable 	Direct electricity source from Distribution Utility and Retail Electricity Suppliers for Power Generation.	kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services	N/A	%

Note: The Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A	
Habitats protected or restored	N/A	Ha
IUCN ³ Red List species and national conservation list species with habitats in areas affected by operations	N/A	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

³ International Union for Conservation of Nature

Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	406.55	Tonnes CO ₂ e
Energy indirect (Scope 2) GHG Emissions	3,527.70	Tonnes CO ₂ e
Emissions of ozone-depleting substances (ODS)	45.99	Tonnes

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Added ODS or ODP. Encourage the use of identified refrigerants that are not ODS.	All.	Reduce air pollution and incorporate environmental protection through RA 8739, or better known as Philippine Clean Air Act of 1999.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Environmental pollution.	All.	Reduce air pollution and incorporate environmental protection through RA 8739, or better known as Philippine Clean Air Act of 1999.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Select Retail Electricity Supplier to those MRSGL stores certified as Contestable Customers by the ERC who are using renewable means of electricity source, but then the amount of the generation rate will always matter in this option. Also, venture into more renewable energy source such as solar.	All.	Reduce air pollution and incorporate environmental protection through RA 8739, or better known as Philippine Clean Air Act of 1999.

Air pollutants

Disclosure	Quantity	Units
NO _x	15,362.06851	kg
SO _x	51.77020759	kg
Persistent organic pollutants (POPs)	N/A	kg
Volatile organic compounds (VOCs)	N/A	kg
Hazardous air pollutants (HAPs)	N/A	kg
Particulate matter (PM)	155.497000	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The lower the value of these air pollutants the better for the environment. These pollutants usually occur from the smoke emission of the genset units.	All MRS GI stores equipped with genset units.	Follow DENR mandates for the allowed pollutants parameter numbers.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Air pollution.	All MRS GI stores equipped with genset units.	Follow DENR mandates for the allowed pollutants parameter numbers.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Well maintained equipment and immediate mitigations for every failure in any parameter from the result of smoke emission test conducted.	All MRS GI stores equipped with genset units.	Follow DENR mandates for the allowed pollutants parameter numbers.

Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity	Units
Total solid waste generated	3,416,697	kg
Reusable	6,574.86	kg
Recyclable	1,814,814	kg
Composted	N/A	kg
Incinerated	N/A	kg
Residuals/Landfilled	1,595,308	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
There are costs in the recycled materials out of the solid waste generated, mostly coming from the carton packaging of the merchandise items.	All MRS GI stores.	Solid Waste Management approach.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Segregation of waste is important to reduce quantities of each type of waste as only the general waste should go to the Municipal waste stream.	All MRS GI stores.	Solid Waste Management approach.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Reduces health and safety related risks to waste pickers and to the ecosystems; reduces the costs of waste; safe disposal of hazardous waste.	All MRS GI stores.	Solid Waste Management approach.

Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated	8,258	kg
Total weight of hazardous waste transported	5,851	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
This waste is called hazardous because its properties are dangerous to human health and environment. The organization's involvement is to disposed the hazardous waste through proper channel accredited by DENR	All MRS GI stores that generates Hazardous waste.	Waste management approach to RA 6969, or better known as Toxic Substances and Hazardous and Nuclear Waste Control of 1990.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
They may cause damage for inadequate handling and storage, transportation and treatment or disposal operations.	All MRS GI stores that generates Hazardous waste.	Waste management approach to RA 6969, or better known as Toxic Substances and Hazardous and Nuclear Waste Control of 1990.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Human and environment safety.	All MRS GI stores that generates Hazardous waste.	Waste management approach to RA 6969, or better known as Toxic Substances and Hazardous and Nuclear Waste Control of 1990.

Effluents

Disclosure	Quantity	Units
Total volume of water discharges	227,518	m ³
Percent of wastewater recycled	Nil	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Waste water discharges are always connected with the industrial operation. In so doing, the effluent being discharge should comply with the standards parameters set forth by DENR.	All MRS GI Stores equipped with STP and those that are inter-connected to the other STP facilities.	Waste management approach to RA 9275, or better known as Philippine Clean Water Act of 2004.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Wastewater effluent that are affecting the reactions and diffusions of pollutants in water bodies.	All MRS GI Stores equipped with STP and those that are inter-connected to the other STP facilities.	Waste management approach to RA 9275, or better known as Philippine Clean Water Act of 2004.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Secure necessary Discharge Permit for those who has the potential to discharge regulated effluent through the water body or stream.	All MRS GI Stores equipped with STP and those that are inter-connected to the other STP facilities.	Waste management approach to RA 9275, or better known as Philippine Clean Water Act of 2004.

Environmental compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	10,000	PhP
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	3	#
No. of cases resolved through dispute resolution mechanism	Nil; Mitigation is implemented but not done, still ongoing	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The monetary sanctions are fines superseding the non-compliance of a certain mandate from any of the Environmental Law if mitigations were not met.	All MRS GI stores.	Waste management approach to the Environmental Mandates.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Based on the provisions of the Environmental Law, hefty penalties to establishment closure are the consequences to face for failure to mitigate any violation of the mandates.	All MRS GI stores.	Waste management approach to the Environmental Mandates.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Clean environment and free sanction from the Law enforcers.	All MRS GI stores.	Waste management approach to the Environmental Mandates.

SOCIAL

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees ⁴	6,826	
a. Number of female employees	3,486	#
b. Number of male employees	3,340	#
Attrition rate ⁵	31.50%	rate
Ratio of lowest paid employee against minimum wage	Lowest paid is at min. wage; no lower than that.	ratio

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	49.00%	51.00%
PhilHealth	Y	49.00%	51.00%
Pag-ibig	Y	49.00%	51.00%
Parental leaves	Y	0.56%	1.00%
Vacation leaves	Y	32.00%	30.00%
Sick leaves	Y	32.00%	30.00%
Medical benefits (aside from PhilHealth)	Y	39.00%	40.00%
Housing assistance (aside from Pag-ibig)	Y	None	None
Retirement fund (aside from SSS)	Y	0.13%	0.07%
Further education support	Y	14.00%	10.55%
Company stock options	N		
Telecommuting	Y	13.00%	7.00%
Flexible-working Hours	N		
(Others)	N		

⁴ Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#))

⁵ Attrition rate = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
COVID-19 Pandemic	Implemented Telecommuting, provided shuttle service to employees; granted employee benefits whenever possible
What are the Risk/s Identified?	Management Approach
Infectious Disease Pandemic	Implemented Telecommuting, provided shuttle service to employees; granted employee benefits whenever possible
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees	6,615	hours
b. Male employees	5,161	hours
Average training hours provided to employees		
a. Female employees	4	hours/employee
b. Male employees	4	hours/employee

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Primary business operations	MRSGL always placed high value on training and retention. Employee training and development supports business operations by: 1) equipping employees of the necessary knowledge, skills and abilities to deliver its role/function, 2) closing the identified skills gaps to improve performance, and 3) providing leadership development programs to incumbent and hi-potential employees eyed for future succession to higher roles.
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	<i>Not applicable.</i>	%
Number of consultations conducted with employees concerning employee-related policies	<i>Not applicable.</i>	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	51.07%	%
% of male workers in the workforce	48.93%	%
Number of employees from indigenous communities and/or vulnerable sector*	20	#

**Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	15,520,000	Man-hours
No. of work-related injuries	12	#
No. of work-related fatalities	0	#
No. of work related ill-health	57	#
No. of safety drills	15	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
COVID-19 Pandemic	Implement Business Continuity Plan
What are the Risk/s Identified?	Management Approach
COVID-19 Pandemic	Implement Business Continuity Plan
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	Nil	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	N	
Child labor	N	
Human Rights	N	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance	N	
Forced labor	N	
Child labor	N	
Human rights	N	
Bribery and corruption	Y	Procurement Policy, No-Gift Policy, among others set out by MRSGL's Standard Operating Procedures

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Relationship with Community

Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>	<i>Not applicable.</i>

*Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: Not applicable.

Certificates	Quantity	Units
FPIC process is still undergoing	N/A	#
CP secured	N/A	#

What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	N/A	N

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*	20	#
No. of complaints addressed	20	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the	Management Approach
--	----------------------------

impact?	
Store operation	All complaints are addressed accordingly by store ERT and Store Operation management.
What are the Risk/s Identified?	Management Approach
Reputational risk and customer serviceability	Management acted immediately through case investigation, aiding the customer and assisting the customer needs either first aid or hospitalization expenses
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	1	#
No. of complaints addressed	1	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
It happened when our Super Metro Colon store got a letter from DTI asking to explain about the customer complaint filed before DTI re prize tax computation.	MRSGL addressed the complaint and immediately sent the response to the letter from DTI.
What are the Risk/s Identified?	Management Approach
If unsettled, risk of maintaining customers' trust towards MRSGL would be compromised.	MRSGL continuously enhances MRSGL's procedure in handling and prevention of having customer complaints.
What are the Opportunity/ies Identified?	Management Approach
That business partners should always be reminded not to disclose any agreement entered into between MRSGL and the business partner to the customer-winner.	MRSGL intensifies the guidelines on confidentiality especially on agreements entered by MRSGL and outside party/ies.

Customer privacy

Disclosure	Quantity	Units
------------	----------	-------

No. of substantiated complaints on customer privacy*	Nil	#
No. of complaints addressed	Nil	#
No. of customers, users and account holders whose information is used for secondary purposes	Nil	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data	None	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Risk/s Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>
What are the Opportunity/ies Identified?	Management Approach
<i>Not applicable.</i>	<i>Not applicable.</i>

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Metro Department Stores Metro Supermarket Super Metro Hypermarket Ancillary Businesses	Poverty Reduction Decent and economic growth Sustainable Cities and Communities Reduced inequalities Good health and well-being	Possibility of missed opportunities to serve the needs of communities	MRSGL continuous to expand into areas where it can serve the needs of far-flung communities and sustain its development
MRSGL CSR Programs	Partnerships for the goals	Possibility of being unable to serve the needs of the more vulnerable sector	MRSGL, through its Corporate Affairs Department, implements various community-related programs.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C 5 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
S E N O A N D W . O . S E N O S T R E E T S ,
G U I Z O , N O R T H R E C L A M A T I O N A R E A ,
M A N D A U E C I T Y , C E B U

Form Type

A A F S

Department requiring the report

C R M D

Secondary License Type, if Applicable

N / A

COMPANY INFORMATION

Company's Email Address

vicsal.sec@
metroretail.ph

Company's Telephone Number

(032) 236-8390

Mobile Number

N/A

No. of Stockholders

23

Annual Meeting (Month / Day)

First Friday of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Joselito G. Orense

Email Address

joel.orense@metroretail.ph

Telephone Number(s)

(032) 236-7793

Mobile Number

N/A

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 exonerate the corporation from liability for its deficiencies.



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

The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

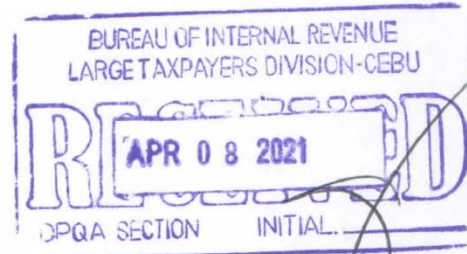
Sycip Gorres Velayo and Co. (SGV), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of the presentation upon completion of such audit.

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 24, 2021



SUBSCRIBED AND SWORN to before me this 25 MAR 2021 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	P5597665A	12 JAN 2018	DFA NCR South
Joselito G. Orense	P8825848A	20 SEP 2018	DFA NCR South

Doc. No. 253
Page No. 52
Book No. LXXXI
Series of 2021

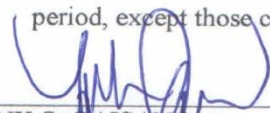
ATTY. EULBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig
Until June 30, 2021

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

The Management of METRO RETAIL STORES GROUP, INC. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all *information* and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any all other tax returns.


In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of METRO RETAIL STORES GROUP, INC., complete and correct in all materials respects. Management likewise affirms that:


- a. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- b. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- c. METRO RETAIL STORES GROUP, INC, has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


FRANK S. GAISANO
Chairman of the Board

SUBSCRIBED AND SWORN to before me this
___ day of 25 MAR 2021 at Taguig City
with Affiant exhibiting to me his/her valid ID stated above

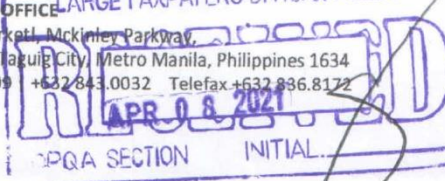

FRANK S. GAISANO
Chief Executive Officer


JOSELITO G. ORENSE
Chief Financial Officer
March 24, 2021


ATTY. EDIBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig
Until June 30, 2021
IBP OR No. 127842 / Rizal 08-27-2020
PTR No. A-5064305 / 01-04-2021 Taguig City
IBP Roll No. 29548
FTI Old Admin. Bldg. FTI Complex, Taguig City

DOC NO. 255
PAGE NO. 2
BOOK NO. IXXXV
SERIES OF 2021

DOC NO. _____
PAGE NO. _____
BOOK NO. _____
SERIES OF 2021

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU

APR 08 2021
CPQA SECTION INITIAL

MANILA CORPORATE OFFICE
6F Metro Market Mall, McKinley Parkway,
Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634
Tel No. v+632 843.0099 | +632 843.0032 Telefax +632 836.8172

CEBU PRINCIPAL OFFICE
Vical Building corner of C.D. Seno and W.O Seno Streets Guizo
North Reclamation Area, Mandaue City, Philippines
Tel. No. (+63 32) 236-8390 | Fax No. (+63 32) 236-9516

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area, Mandaue City, Cebu

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc., which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2020, and a summary of significant accounting policies and other explanatory information.

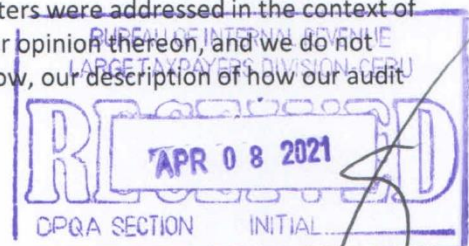
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment Testing of Nonfinancial Assets

The Company's operation is affected by the coronavirus pandemic and the Company incurred loss in 2020. The Company permanently closed two stores in 2020 and decided to reduce leased spaces in certain stores effective early 2021. Accordingly, management identified that property and equipment and right-of-use assets have indicators of impairment and performed impairment test to determine recoverable amount. The assessment of the recoverable amount requires significant judgment and involves estimation and assumptions about future sales and costs, as well as external inputs such as discount rate and growth rate. In addition, because of the coronavirus pandemic, there is heightened level of uncertainty on the future economic outlook and market forecast. Hence, such assessment is a key audit matter in our audit.

The disclosures in relation to property and equipment and right-of-use assets are included in Note 9 and Note 24 to the financial statements, respectively.

Audit response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future sales and costs as well as external inputs such as the discount rate and growth rate. We compared the key assumptions used such as future sales and costs against historical sales and costs data, taking into consideration the impact associated with coronavirus pandemic and the expected recovery. We compared the growth rate used against actual historical performance and industry outlook. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of 'property and equipment' and 'right-of-use assets'.

Existence and completeness of merchandise inventories

The Company's inventories comprise 23% of its total assets as at December 31, 2020. The Company operates 57 stores (consisting of department stores, supermarkets and hypermarkets) and 11 warehouses in Luzon and Visayas. We focused on this area since inventories are material to the financial statements and are located in various sites across the country.

The Company's disclosures about inventories are included in Note 7 to the financial statements.



Audit Response

We observed the conduct of inventory count at selected stores and warehouses and performed test counts. We traced the results of the test counts to the inventory compilation to determine if the inventory compilation reflects actual inventory count results. We also traced the last documents used for shipping, receiving, transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. We reviewed the reconciliation of the valued physical inventory compilation with the general ledger account balances and tested reconciling item. On a sampling basis, we tested the rollforward and rollback procedures on inventory quantities from the date of inventory count to reporting date.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide with those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1075 in Note 31 and Revenue Regulations 15-2010 in Note 32 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and are not required parts of the basic financial statements. Such information are the responsibility of the management of Metro Retail Stores Group, Inc. The information have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

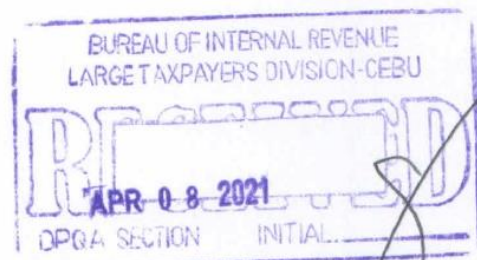
Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534336, January 4, 2021, Makati City

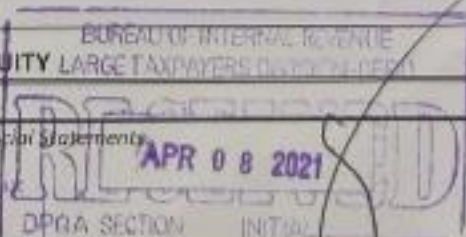
March 24, 2021



METRO RETAIL STORES GROUP, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 27)	P2,257,268,691	P2,909,123,300
Short-term investments (Notes 5 and 27)	1,270,644,434	629,574,974
Receivables (Notes 6 and 27)	672,127,679	1,146,347,172
Merchandise inventories (Note 7)	4,981,620,260	4,636,576,270
Other current assets (Notes 8 and 27)	540,865,116	494,406,602
Total Current Assets	9,722,526,180	9,816,028,318
Noncurrent Assets		
Property and equipment (Note 9)	4,954,668,833	4,700,483,138
Right-of-use ("ROU") assets (Note 24)	5,408,172,114	7,512,796,866
Deferred tax assets - net (Note 23)	568,063,929	309,275,514
Other noncurrent assets (Notes 10 and 27)	720,530,258	1,026,033,995
Total Noncurrent Assets	11,651,435,134	13,548,589,513
TOTAL ASSETS	P21,373,961,314	P23,364,617,831
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 27)	P4,642,332,394	P5,409,499,852
Contract liabilities (Note 12)	82,133,740	103,525,837
Loans payable (Note 13)	1,500,000,000	-
Income tax payable	21,977,105	230,178,863
Lease liabilities - current portion (Notes 24 and 27)	479,564,316	949,045,108
Total Current Liabilities	6,726,007,555	6,692,249,660
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 24 and 27)	5,542,385,955	6,870,042,722
Retirement benefit obligation (Note 21)	563,608,003	500,623,022
Other noncurrent liabilities (Notes 14 and 27)	5,624,863	65,737,958
Total Noncurrent Liabilities	6,111,618,821	7,436,403,702
Total Liabilities	12,837,626,376	14,128,653,362
Equity		
Capital stock (Note 15)	3,429,375,000	3,429,375,000
Additional paid-in capital (Note 15)	2,455,542,149	2,455,542,149
Retained earnings (Note 15)	2,690,003,170	3,345,357,261
Remeasurement (losses) gains on defined benefit obligation (Note 21)	(38,585,381)	5,690,059
Total Equity	8,536,334,938	9,235,964,469
TOTAL LIABILITIES AND EQUITY	P21,373,961,314	P23,364,617,831

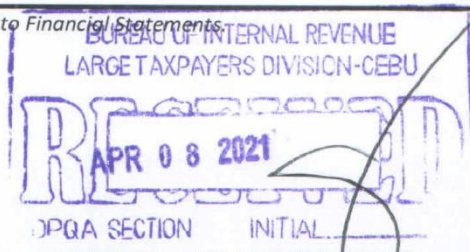
See accompanying Notes to Financial Statements



METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
REVENUE			
Net sales (Note 16)	₱31,286,312,987	₱36,790,177,798	₱33,050,084,154
Rentals (Notes 22 and 24)	146,843,483	255,810,221	233,751,621
	31,433,156,470	37,045,988,019	33,283,835,775
COSTS AND EXPENSES			
Cost of sales (Note 18)	24,960,173,867	28,592,544,037	25,650,018,422
Operating expenses (Note 19)	6,775,499,850	7,390,186,363	6,758,799,769
	31,735,673,717	35,982,730,400	32,408,818,191
OPERATING INCOME (LOSS)	(302,517,247)	1,063,257,619	875,017,584
OTHER INCOME (CHARGES) (Note 17)			
Interest and other income	269,182,058	709,303,783	490,605,042
Finance costs	(512,183,440)	(607,483,396)	(19,041,131)
	(243,001,382)	101,820,387	471,563,911
INCOME (LOSS) BEFORE INCOME TAX	(545,518,629)	1,165,078,006	1,346,581,495
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	143,886,188	529,883,374	384,326,979
Deferred	(239,813,226)	(140,450,099)	(3,123,004)
	(95,927,038)	389,433,275	381,203,975
NET INCOME (LOSS)	(449,591,591)	775,644,731	965,377,520
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Not to be reclassified to profit or loss in subsequent periods</i>			
Remeasurement (losses) gains on defined benefit obligation (Note 21)	(63,250,628)	(52,767,286)	199,860
Income tax effect (Note 23)	18,975,188	15,830,186	(59,958)
	(44,275,440)	(36,937,100)	139,902
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱493,867,031)	₱738,707,631	₱965,517,422
Basic/Diluted Earnings (Loss) Per Share			
(Note 25)	(₱0.13)	₱0.23	₱0.28

See accompanying Notes to Financial Statements.



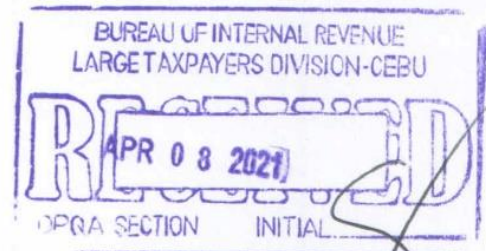
METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020, 2019 and 2018

	Capital Stock (Note 15)	Additional Paid-in Capital (Note 15)	Retained Earnings (Note 15)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 21)	Total
Balances at January 1, 2020	₱3,429,375,000	₱2,455,542,149	₱3,345,357,261	₱5,690,059	₱9,235,964,469
Net loss for the year	-	-	(449,591,591)	-	(449,591,591)
Other comprehensive loss	-	-	-	(44,275,440)	(44,275,440)
Total comprehensive loss	-	-	(449,591,591)	(44,275,440)	(493,867,031)
Declaration of dividends (Note 15)	-	-	(205,762,500)	-	(205,762,500)
Balances at December 31, 2020	₱3,429,375,000	₱2,455,542,149	₱2,690,003,170	(₱38,585,381)	₱8,536,334,938
Balances at January 1, 2019	₱3,429,375,000	₱2,455,542,149	₱2,775,475,030	₱42,627,159	₱8,703,019,338
Net income for the year	-	-	775,644,731	-	775,644,731
Other comprehensive loss	-	-	-	(36,937,100)	(36,937,100)
Total comprehensive income	-	-	775,644,731	(36,937,100)	738,707,631
Declaration of dividends (Note 15)	-	-	(205,762,500)	-	(205,762,500)
Balances at December 31, 2019	₱3,429,375,000	₱2,455,542,149	₱3,345,357,261	₱5,690,059	₱9,235,964,469
Balances at January 1, 2018	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416
Net income for the year	-	-	965,377,520	-	965,377,520
Other comprehensive income	-	-	-	139,902	139,902
Total comprehensive income	-	-	965,377,520	139,902	965,517,422
Declaration of dividends (Note 15)	-	-	(205,762,500)	-	(205,762,500)
Balances at December 31, 2018	₱3,429,375,000	₱2,455,542,149	₱2,775,475,030	₱42,627,159	₱8,703,019,338

See accompanying Notes to Financial Statements.

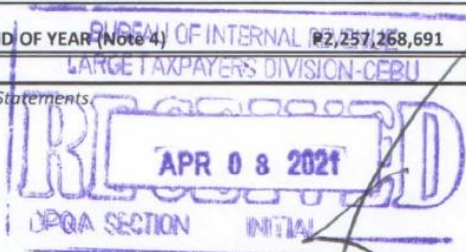


METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) income before income tax	(P545,518,629)	P1,165,078,006	P1,346,581,495
Adjustments for:			
Depreciation and amortization of ROU assets - net (Note 24)	859,437,309	1,241,452,884	-
Finance costs (Note 17)	512,183,440	607,483,396	19,041,131
Depreciation and amortization of PPE (Note 9)	497,444,254	480,904,170	490,362,102
Loss on stores closure - net (Note 19)	217,449,025	-	-
Provision for impairment of nonfinancial assets (Note 19)	133,358,471	6,226,119	26,859,905
Retirement benefits costs (Note 21)	88,378,081	58,373,098	47,134,866
Provision for decline in inventories value (Note 7)	45,465,268	-	-
Provision for impairment and write off of receivables (Note 6)	24,292,248	4,662,102	11,344,445
Foreign currency exchange losses (gains) (Note 17)	6,164,814	8,451,855	(20,721,700)
Loss on retirement of property and equipment (Note 9)	4,532,824	2,999,513	25,804
Interest income (Note 17)	(50,751,483)	(101,905,155)	(75,072,483)
Gain on lease modification (Note 24)	(84,463,838)	-	-
Gain on insurance claims - net (Note 17)	(104,364,149)	(538,743,310)	(350,681,819)
Reversal of impairment loss	-	-	(155,972)
Operating income before working capital changes	1,603,607,635	2,934,982,678	1,494,717,774
Decrease (increase) in:			
Receivables	339,300,631	(124,632,504)	(44,069,074)
Merchandise inventories	(390,509,258)	(1,046,971,099)	112,403,617
Other current assets	(22,274,650)	(3,660,565)	(184,399,088)
Increase (decrease) in:			
Trade and other payables	(834,521,785)	1,016,713,991	221,712,387
Contract liabilities	(21,392,097)	330,177	103,195,660
Other noncurrent liabilities	290,785	12,521,555	(413,808)
Cash flows generated from operations	674,501,261	2,789,284,233	1,703,147,468
Proceeds from insurance claims on merchandise inventory and business interruption	208,728,297	890,004,510	111,323,800
Income tax paid	(352,087,946)	(458,044,440)	(416,041,698)
Interest received	57,013,949	96,819,732	75,739,031
Interest paid	(27,123,619)	(16,835,233)	(16,348,371)
Retirement benefits paid, including retrenchment pay	(88,643,728)	(3,524,263)	(7,635,456)
Net cash provided by operating activities	472,388,214	3,297,704,539	1,450,184,774
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 9)	(737,201,461)	(1,942,356,492)	(1,447,741,077)
(Increase) decrease in short-term investments	(641,069,460)	(271,136,570)	396,765,867
Proceeds from insurance claims on property, plant and equipment (Note 9)	-	-	133,408,200
Decrease (increase) in other noncurrent assets	(32,054,926)	(266,733,530)	(434,681,564)
Net cash used in investing activities	(1,410,325,847)	(2,480,226,592)	(1,352,248,574)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availment (Note 13)	1,500,000,000	-	-
Payments of:			
Cash dividends (Note 15)	(205,762,268)	(205,762,392)	(205,754,341)
Principal portion of lease liabilities (Note 24)	(491,033,774)	(710,169,984)	-
Interest portion of lease liabilities (Note 24)	(510,956,120)	(590,149,820)	-
Finance lease liability (Note 24)	-	-	(13,876,863)
Net cash provided by (used in) financing activities	292,247,838	(1,506,082,196)	(219,631,204)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(645,689,795)	(688,604,249)	(121,695,004)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 17)	(6,164,814)	(8,451,855)	20,721,700
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,909,123,300	3,606,179,404	3,707,152,708
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P2,257,268,691	P2,909,123,300	P3,606,179,404

See accompanying Notes to Financial Statements.



METRO RETAIL STORES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Approval of the Financial Statements

Corporate Information

Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines. The Company is 76.62%-owned by Vicsal Development Corporation (VDC), 0.72%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

The Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 24, 2015 (see Note 15).

The Company's principal place of business is located at Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo North Reclamation Area, Mandaue City, Cebu.

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were approved and authorized for issue by the BOD on March 24, 2021.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱), which is the Company's functional currency. Amounts are rounded off to the nearest Philippine Peso, except where otherwise indicated.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

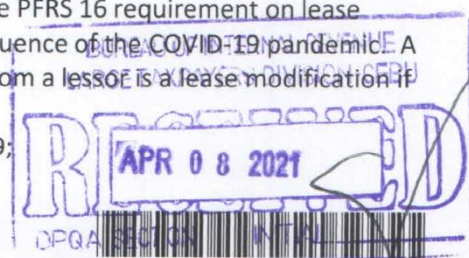
Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2020. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated:

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;



- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Company adopted the amendments to PFRS 16 beginning January 1, 2020 and recognized the COVID-19 related rent concessions received by the Company as a lessee amounting to ₱228.16 million as variable lease payments, particularly as a deduction from “Depreciation of right-of-use assets” in the “Operating Expenses” section of the statements of comprehensive income. Please refer to Notes 19 and 24.

- *Amendments to PFRS 3, Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.

- *Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- *Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.



- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

Standards and interpretation issued but not yet effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Company shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the



same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively

- *Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

- *Amendments to PAS 37, Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- *Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.



- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.



- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

The following accounting policies were applied in the preparation of the Company's financial statements:

Current and Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current / noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;



- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Cash and Cash Equivalents

Cash pertains to cash on hand and in banks. Cash in banks represent cash funds that are deposited in various bank accounts of the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term, highly liquid investment with maturities of more than three (3) months but less than one year and are intended for short term cash requirement of the Company.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a FVPL, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.



The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include cash and cash equivalents, short-term investments, trade receivables, rentals and receivable from related parties, other receivables (Claims from insurers and accrued interest receivable) and security deposits under "Other current assets" and lodged in "Deposits" under "Other noncurrent assets".

Financial assets at fair value through OCI (debt instrument)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.



The Company has no debt instruments measured at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company has no financial assets designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the profit or loss.

The Company has no financial assets measured at FVPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement-and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards



of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, rentals and security deposits, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.



Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Company considers a financial asset to have low credit risk when it has an internal or external credit rating of “investment grade” as per globally understood definition.

Definition of default

The Company considers that default has occurred when a financial asset is more than 90 days past due and when an internally developed information indicate that the debtor is unlikely to pay the Company in full unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets’ gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PAS 17, *Leases*.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.



Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowing, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables (excluding statutory payables), lease liabilities, finance lease liability and other noncurrent liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss only if the criteria in PFRS 9 are satisfied.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Company has not designated any financial liability at FVPL.

Financial liabilities at amortized cost

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rates (EIR) method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the profit or loss. This category generally applies to trade and other payables (excluding statutory payables), loans payable, lease liabilities and other noncurrent liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in profit or loss.



Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as disclosed in Note 27.

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost and net realizable value (NRV). Cost which includes all cost directly attributable to acquisition such as purchase price and transport cost is determined using the weighted average cost (WAC) method. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The Company provides for estimated inventory losses based on the Company's experience. The provision is adjusted periodically to reflect the actual physical inventory count results.

Other Assets

Deposits

Deposits include payments to lessors for rental, payments to utility companies for meter deposits which will be offset against the Company's outstanding balance at the end of the contract term. This also include deposits for future land acquisition for the acquisition of certain land. The Deed of Absolute Sale (DOAS) for the property will be executed upon fulfillment by both parties of certain undertakings and conditions. This is expected to be transferred to "Property and equipment" within one year upon fulfillment of the conditions. These are recognized at the actual payments at transaction date.



Prepayments

Prepayments include advance payments for insurance and rentals which are amortized or consumed within the entity's normal operating cycle.

Supplies

Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes. These are recorded at cost and taken to profit and loss upon issuance.

Advances to Suppliers

Advances to suppliers are down payments to the Company's suppliers for the acquisition of supplies, merchandise inventories, property and equipment and other services. These are recognized based on the amount paid at the transaction date and are applied when the goods are received or services are rendered.

Value-Added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Deferred Input VAT

Deferred input VAT represents input VAT on purchase of capital goods exceeding one million pesos. The related input VAT is recognized over five years or the useful life of the capital goods, whichever is shorter.

Property and Equipment

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

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including borrowing cost. Expenditures incurred after the property and equipment have been placed into operation, such as repairs and maintenance costs, are normally recognized in profit or loss in the period in which they are incurred. The cost of an item of property and equipment include costs incurred relating to leases of assets that are used to construct an item of property and equipment, such as depreciation of right-of-use assets. In situations where it can be clearly demonstrated that the expenditures would result in an increase in future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of such property and equipment.



Construction-in-progress are carried at cost (including borrowing cost) and transferred to the related property and equipment account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

When assets are sold or retired, the cost and related accumulated depreciation or amortization and accumulated impairment in value are removed from the accounts and any resulting gain or loss is reflected in profit or loss.

Depreciation and amortization is calculated on a straight-line method over the estimated useful lives (EUL) of the property and equipment, except for leasehold improvements, which are amortized over the term of the lease or the EUL of the improvements, whichever is shorter.

	Years
Machinery and equipment	10 to 15
Store and office equipment	3 to 10
Computer equipment	3 to 5
Transportation equipment	3 to 10
Leasehold improvements	3 to 25 or the lease term, whichever is shorter

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

The assets' useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each reporting date.

Fully depreciated property and equipment are retained in the accounts while still in use although no further depreciation is credited or charged.

Borrowing Costs

Borrowing costs are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "property and equipment" account in the statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest expense from lease liabilities.

Leases effective January 1, 2019



Company as Lessee

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow.

	Years
Land	4 to 41
Building	2 to 27
IT equipment	5
Others	2

Carrying amount of right-of-use assets are adjusted for any remeasurement of lease liabilities. It is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. For all other lease modifications, the Company makes a corresponding adjustment to the right-of-use asset.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset. PFRS 16 requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use asset.



Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below P250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Rent concession

The Company recognizes rent concessions arising as a direct consequence of the COVID-19 pandemic as variable lease payments, particularly as a deduction from depreciation of right-of-use assets having met all the following criteria of amendments to PFRS 16, *COVID-19 related Rent Concessions*:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

Company as Lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases prior to January 1, 2019

Operating Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the Company's profit or loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized.

Operating Leases - Company as Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.



Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that other current assets (excluding security deposits), property and equipment, right-of-use assets and other noncurrent assets (excluding security deposits - noncurrent) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Retirement Benefit Obligation

The Company has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its employees. The Company's pension liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Pension cost comprises the following:

- service cost;
- interest on the pension liability; and
- remeasurements of pension liability.

Service costs which include current service costs, past service cost and gains and losses on non-routine settlements are recognized in expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated annually by independent qualified actuaries.



Interest on the Company's pension liability is the change during the period in the pension liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liability. Interest on the Company's pension liability is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Equity

Capital Stock and Additional paid-in capital

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issuance of new capital stock are shown in equity as a deduction from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital.

Retained Earnings

The amount included in retained earnings includes accumulated profit (loss) less dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's BOD. Interim dividends, if any, are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. Retained earnings may be appropriated for any investments and funding of certain reserve accounts to be established pursuant to the requirements of the lenders in accordance with the agreement. When appropriation is no longer needed, it is reversed.

Revenue recognition

The Company recognized revenue from sale of goods to retail customers, including the related loyalty program. Sale of goods includes food, beverage, grocery items, fashion items (e.g. shoes, bags, clothing, cosmetics), household items, home improvement products, consumer electronics and appliances, toys, and prescription and over-the-counter pharmaceutical products.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

Sale of goods

The Company sells goods directly to customers through its own stores.

For sale of goods through stores, revenue is recognized when the control of the goods has transferred to the customer, being at the point the customer purchases the goods at the store. Payment of the transaction price is due immediately at the point the customer purchases the goods.



Sale of loyalty points, gift checks and stored value cards.

The Company operates a loyalty program where retail customers accumulate points for purchases made at the Company's stores that can be redeemed against any future purchases at any of the Company's stores, subject to a minimum number of points obtained. The Company also sells gift checks and stored value cards which can be used to redeem goods.

The Company allocates the consideration received to loyalty points, gift checks and stored value cards. This allocation is based on the relative stand-alone selling prices. The stand-alone selling price is estimated based on the equivalent value given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Company's historical experience. The amount allocated to these items is deferred and is recognized as revenue when redeemed or the likelihood of the customer redeeming becomes remote. The deferred revenue is included in contract liabilities.

Contract Balances

Receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Rental

Rental income is recognized in profit or loss on a straight-line basis over the lease term or based on the terms of the lease as applicable.

Interest Income

Interest income pertains to income recognized as the interest accrues using the effective interest method.

Other Income

Other operating income pertains to scrap sales from items such as non-reusable cartons, sacks, containers and other items from the Company's stores, insurance recovery and other miscellaneous income. Other income is recognized upon completion of the earning process and the collectability of the amount is reasonably assured.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the service is used or the expenses incurred.



Cost of Sales

Cost of sales consists of inventory costs related to goods which the Company has sold. Inventory costs include all costs of purchase, costs of conversion and other costs incurred, net of all related discounts, in bringing the inventories to their present location and condition.

Operating Expenses

Operating expenses constitute costs of administering the business and selling and marketing expenses associated with the development and execution of marketing promotion activities. These are recognized as expenses when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

Income Taxes

Current Income Tax

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

Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purpose. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused tax losses from net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carry-forward benefits of excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized before their reversal or expiration. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred tax assets to be recovered.

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

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

Segment Reporting

The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources. Information on reporting segment is represented in Note 26 to the financial statements.



Earnings Per Share (EPS)

Basic EPS is computed by dividing net income of the Company by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS amounts are calculated by dividing the net income attributable to the Company (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of common shares used in the calculation of the basic/diluted EPS is determined on the basis of the weighted average number of shares of the Company during the year.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the closing rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are credited to or charged against current operations. Nonmonetary items that are denominated in foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Provisions

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

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed when material.



3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Company to exercise judgment, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change.

The effects of any change in accounting estimates are reflected in the Company's financial statements as they become reasonably determinable. Accounting assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Determination of lease term of contracts with renewal and termination options - Company as a lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for some leases of land and building with shorter non-cancellable period. It is probable that the Company will exercise its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available.

Determining whether the loyalty points, gift checks and stored value cards provide material rights to customers

The Company has a loyalty points program which allows customers to accumulate points that can be redeemed for future purchases at any of the Company's stores, subject to a minimum number of points obtained. The loyalty points give rise to a separate performance obligation as the Company assessed that they provide a material right to the customer. Transaction price is allocated to these items issued to customers based on relative stand-alone selling price and recognized as a contract liability until these are redeemed. Revenue is recognized upon redemption of products by the customer. The Company also has gift checks and stored value cards which can be redeemed for future purchases at any of the Company's stores.



Contingencies

The Company in the ordinary course of business is a party to various legal proceedings and is subject to certain claims and exposures. The assessment of the probability of the outcome of these claims and exposures has been developed in consultation with the Company's counsels and is based upon an analysis of potential results. The Company's management and counsels believe that the eventual liabilities under these lawsuits, claims or exposures, if any, will not have a material effect on its financial statements.

Accordingly, no provision for probable losses was recognized by the Company in 2020 and 2019.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Assessing NRV of Inventories

NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs. Due to COVID-19 pandemic, the Company experienced limited selling activities and lower demand that resulted in decrease in sales in 2020. In evaluating NRV, recent market conditions and current market prices have been considered including COVID19 impact. In the event that NRV is lower than cost, the decline is recognized as an expense.

In 2020, the Company recognized provision for decline in inventory values amounting to ₱45.47 million (nil in 2019). Merchandise inventories amounted to ₱4,981.62 million and ₱4,636.58 million as of December 31, 2020 and 2019, respectively (see Note 7).

Provision for expected credit losses of trade receivables, rentals and security deposits

The Company uses a provision matrix to calculate ECLs for trade receivables, rentals and security deposits. The provision rates are based on days past due for groupings of customer segment that have similar loss patterns (i.e., customer type and guarantor).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information including COVID19 impact. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Company has considered impact of COVID-19 pandemic and revised its assumptions in determining variables and loss rates in the computation of ECL. The changes in the gross carrying amount of receivables from the Company's sales during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.



In 2020, the Company recognized provision for expected credit losses of receivables amounting to ₱19.98 million (nil in 2019). Allowance for expected credit losses of receivables amounted to ₱31.60 million and ₱11.61 million as of December 31, 2020 and 2019, respectively. The carrying amount of receivables, net of valuation allowance, amounted to ₱672.13 million and ₱1,146.35 million as of December 31, 2020 and 2019, respectively (see Note 6).

In 2018, the Company has an allowance for impairment losses amounting to ₱28.17 million pertaining to security deposits which may not be recoverable as a result of closure of its non-performing store on the same year. In 2020, the Company agreed with the lessor on the forfeiture of the security deposits, and as a result, the amount was written-off.

Allowance for impairment losses on security deposit amounted to nil and ₱28.17 million as of December 31, 2020 and 2019. The carrying amount of security deposit, net of impairment losses, amounted to ₱225.49 million and ₱215.76 million as of December 31, 2020 and 2019, respectively (see Notes 8 and 10).

Evaluation of Impairment of Nonfinancial Assets

The Company reviews other current assets (excluding security deposits), property and equipment, right-of-use assets and other noncurrent assets (excluding security deposits - noncurrent) with definite lives for impairment of value.

The impairment evaluation for nonfinancial assets includes considering certain indications of impairment such as significant changes in asset usage, significant decline in asset's market value, obsolescence, or physical damage of an asset, significant underperformance relative to expected historical or projected operating results and significant negative industry or economic trends.

The Company permanently closed two of its stores during the year and decided to reduce lease spaces in certain stores effective in early 2021. These events and conditions are impairment indicators requiring the assessment of the recoverable amount of the 'property and equipment' and 'right-of-use assets'.

The Company estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect the above-mentioned nonfinancial assets. For property and equipment and right-of-use assets, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the property and equipment and right-of-use assets pertains to. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

The significant assumptions used in the valuation are discount rates of 10% to 12% with an average growth rate of 3%. The Company also considered in its assumptions the impact of COVID 19 on sales which are not expected to normalize until 2022 and the updated costs structure based on changes implemented during the year.



As of December 31, 2020 and 2019, the carrying value of the Company's nonfinancial assets are, as follows:

	2020	2019
Other current assets* (Note 8)	₱447,845,515	₱483,216,612
Property and equipment (Note 9)	4,954,668,833	4,700,483,138
Right-of-use assets (Note 24)	5,408,172,114	7,512,796,866
Other noncurrent assets** (Note 10)	588,063,174	821,467,448
	₱11,398,749,636	₱13,517,964,064

*excluding security deposits

**excluding security deposits, net of allowance

In 2020, the Company recognized provision for impairment loss amounting to ₱33.50 million in relation to the closure of two stores during the year (see Notes 9 and 19). In addition, the Company recognized provision for impairment loss on right-of-use asset amounting to ₱99.86 million in relation to the Company's planned reduction of leased premises in 2021 (see Note 24).

In 2019 and 2018, the Company recognized provision for impairment loss amounting to ₱6.23 million and ₱20.88 million, respectively, which pertains to long outstanding advances to nontrade suppliers (nil in 2020) (see Note 10).

In 2018, the Company recognized provision for impairment losses amounting to ₱5.98 million which pertains to long outstanding advances to third party trade suppliers (see Note 8).

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating).

The Company's lease liabilities amounted to ₱6,021.95 million and ₱7,819.09 million as of December 31, 2020 and 2019, respectively (see Note 24).

Estimating Retirement Benefits Obligation

The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions in calculating such amounts. Those assumptions are described in Note 21 of the financial statements and include, among others, discount rates and future salary increase rates.



Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's retirement benefits obligation.

The Company's retirement benefits costs amounted to ₱88.38 million, ₱58.37 million and ₱47.14 million in 2020, 2019 and 2018, respectively. Retirement benefits obligation amounted to ₱563.61 million and ₱500.62 million as of December 31, 2020 and 2019, respectively (see Note 21).

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	₱161,303,512	₱156,930,765
Cash in banks	1,592,950,321	2,323,026,855
Cash equivalents	503,014,858	429,165,680
	₱2,257,268,691	₱2,909,123,300

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn annual interest at the respective short-term rates that range from 0.10% to 4.5% in 2020, 0.10% to 7.38% in 2019 and 2018.

Interest income earned from cash and cash equivalents amounted to ₱14.96 million, ₱80.00 million and ₱57.16 million in 2020, 2019 and 2018, respectively (see Note 17).

5. Short-term Investments

This account pertains to money market placements made for varying periods of up to one year depending on the immediate cash requirement of the Company and earn annual interest at the respective short-term investment rates that range from 2.0% to 5.25%, 4.0% to 6.6% and 3.9% to 6.3% in 2020, 2019 and 2018, respectively.

Short term investments as of December 31, 2020 and 2019 amounted to ₱1,270.64 million and ₱629.57 million, respectively.

Interest income earned from short-term investments amounted to ₱28.34 million, ₱14.77 million and ₱14.84 million in 2020, 2019 and 2018, respectively (see Note 17).



6. Receivables

This account consists of:

	2020	2019
Trade		
Third parties	₱591,889,200	₱952,711,790
Related parties (Note 22)	362,203	1,409,351
Nontrade		
Related parties (Note 22)	₱42,418,814	₱18,154,188
Rentals	30,863,966	37,449,489
Accrued interest receivable (Note 17)	8,256,342	14,518,808
Receivable from insurance	-	104,364,149
Advances to employees and officers	-	4,176,287
Others	29,932,486	25,175,522
	703,723,011	1,157,959,584
Less allowance for expected credit losses	31,595,332	11,612,412
	₱672,127,679	₱1,146,347,172

Trade receivables consist of receivables from third parties and related parties. Trade receivables from third parties pertain to credit sales mainly from the Company's credit account holders and credit card companies. These are noninterest-bearing and are generally collectible within 30 to 90 days.

Rentals pertain to receivables from tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days.

Advances to employees and officers pertain mainly to cash advances for travel and expenses related to store operations such as purchases of supplies and other expenses and are normally settled through liquidation within 30 days.

Receivable from insurance consists of insurance claims for inventory loss due to fire in 2018.

Others consist of construction cash bond for store fit-outs and receivable from Social Security System (SSS) and are collectible on demand.

Movements in the allowance for expected credit losses for individually and collectively impaired trade and rentals from third parties follow:

Trade receivables

	2020	2019	2018
Beginning of year	₱11,612,412	₱11,612,412	₱11,612,412
Add provisions (Note 19)			
Trade	9,982,920	-	-
End of year	₱21,595,332	₱11,612,412	₱11,612,412



Rentals

	2020	2019	2018
Provisions and balance at end of year	₱10,000,000	₱-	₱-

The Company has directly written off receivables which are deemed uncollectible amounting to ₱4.31 million, ₱3.70 million and ₱5.89 million in 2020, 2019 and 2018 respectively (Note 19).

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2020	2019	2018
Beginning inventory	₱4,636,576,270	₱3,589,605,171	₱4,002,495,549
Add purchases – net	25,276,452,552	29,601,659,711	25,497,242,262
Cost of goods available for sale	29,913,028,822	33,191,264,882	29,499,737,811
Less cost of merchandise sold (Note 18)	(24,885,943,294)	(28,554,688,612)	(25,609,645,879)
Less inventory loss due to fire (Note 17)	–	–	(300,486,761)
	5,027,085,528	4,636,576,270	3,589,605,171
Less allowance for decline in inventory values (Note 3)	(45,465,268)	–	–
Ending inventory	₱4,981,620,260	₱4,636,576,270	₱3,589,605,171

Net purchases include cost of inventory, freight charges, insurance and customs duties.

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. The net book value of the damaged inventory amounted to ₱300.49 million.

The Company received insurance proceeds for the inventory damaged by fire amounting to ₱208.73 million, ₱61.61 million and ₱111.32 million in 2020, 2019 and 2018, respectively (see Note 17).

The inventories carried at NRV, which is the lower of cost or NRV, amounted to ₱15.76 million and nil as of December 31, 2020 and 2019, respectively. In 2020, the Company recognized provision for decline in inventory values amounting to ₱45.47 million which is lodged under “Others” in the Cost of Sales section in the statements of comprehensive income.

No inventories have been used or pledged as security for the Company’s obligations in 2020 and 2019.

The Company does not have any purchase commitments as of December 31, 2020 and 2019.



8. Other Current Assets

This account consists of:

	2020	2019
Prepayments		
Third parties	₱104,081,314	₱99,953,762
Related parties (Note 22)	1,077,567	2,780,424
Input VAT - net	₱96,163,794	₱-
Deferred input VAT - current	68,617,282	70,964,241
Supplies	60,061,392	61,266,986
Advances to trade suppliers		
Related parties (Note 22)	117,822,501	234,245,539
Third parties	63,451	14,047,446
Security deposits - current	93,019,601	11,189,990
	540,906,902	494,448,388
Less allowance for impairment losses	41,786	41,786
	₱540,865,116	₱494,406,602

Prepayments consist of prepaid insurance and advance rental payments on short-term leases.

Input VAT pertains to taxes imposed on purchase of goods and services. These are expected to be fully amortized within one year.

Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes. These are recognized at cost.

Advances to suppliers pertain to down payments made to suppliers for purchases of merchandise inventories, supplies and other services.

Security deposits - current pertains to leases with remaining lease period of one year or less from reporting period.

Allowance for impairment losses pertains to long-outstanding advances to third party trade suppliers. Movements in the allowance for impairment loss for other current assets follow:

	2020	2019	2018
Beginning of year	₱41,786	₱5,984,803	₱-
Provision for impairment losses			
(Note 19)	-	-	5,984,803
Write-off	-	(5,943,017)	-
End of year	₱41,786	₱41,786	₱5,984,803

The Company has directly written off advances to suppliers amounting to nil, ₱0.96 million and ₱5.45 million in 2020, 2019 and 2018, respectively (Note 19).



9. Property and Equipment

The rollforward analysis of this account follows:

	Land	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:								
At beginning of year	₱-	₱330,192,298	₱2,151,604,305	₱1,149,321,715	₱396,909,386	₱2,417,201,339	₱1,496,588,292	₱7,941,817,335
Additions	45,000,000	50,246,911	172,089,426	65,094,099	6,692,603	49,997,113	722,825,297	1,111,945,449
Retirements	-	(459,500)	(18,407,867)	(4,015,664)	(176,788)	(391,825,155)	-	(414,884,974)
Reclassifications	-	609,174,256	(326,474,693)	135,320,781	(17,144,312)	95,749,783	(496,625,815)	-
At end of year	45,000,000	989,153,965	1,978,811,171	1,345,720,931	386,280,889	2,171,123,080	1,722,787,774	8,638,877,810
Less Accumulated Depreciation and Amortization:								
At beginning of year	-	91,190,110	1,409,108,412	946,307,112	226,664,113	568,064,450	-	3,241,334,197
Depreciation and amortization (Notes 18 and 19)	-	64,171,430	143,956,412	93,164,315	62,769,982	133,382,115	-	497,444,254
Retirements	-	(392,453)	(15,560,192)	(2,686,446)	(177,951)	(69,248,589)	-	(88,065,631)
Reclassifications	-	13,374,453	(7,962,409)	469	(342,592)	(5,069,921)	-	-
At end of year	-	168,343,540	1,529,542,223	1,036,785,450	288,913,552	627,128,055	-	3,650,712,820
Less: Allowance for impairment loss (Note 19)	-	18,119,395	13,807,376	1,569,386	-	-	-	33,496,157
Net Book Value	₱45,000,000	₱802,691,030	₱435,461,572	₱307,366,095	₱97,367,337	₱1,543,995,025	₱1,722,787,774	₱4,954,668,833



2019

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction- in-Progress	Total
Cost:							
At beginning of year	₱162,328,087	₱1,675,787,293	₱1,086,274,155	₱350,058,247	₱1,381,009,794	₱1,328,418,313	₱5,983,875,889
Additions	36,053,420	300,040,980	66,980,295	40,516,498	180,599,577	1,341,894,232	1,966,085,002
Retirements	-	(4,074,364)	(3,932,735)	(136,457)	-	-	(8,143,556)
Reclassifications	131,810,791	179,850,396	-	6,471,098	855,591,968	(1,173,724,253)	-
At end of year	330,192,298	2,151,604,305	1,149,321,715	396,909,386	2,417,201,339	1,496,588,292	7,941,817,335
Less Accumulated Depreciation and Amortization:							
At beginning of year	68,930,457	1,241,340,915	853,211,577	164,700,626	437,390,495	-	2,765,574,070
Depreciation and amortization (Notes 18 and 19)	22,259,653	170,195,000	95,705,184	62,070,378	130,673,955	-	480,904,170
Retirements	-	(2,427,503)	(2,609,649)	(106,891)	-	-	(5,144,043)
At end of year	91,190,110	1,409,108,412	946,307,112	226,664,113	568,064,450	-	3,241,334,197
Net Book Value	₱239,002,188	₱742,495,893	₱203,014,603	₱170,245,273	₱1,849,136,889	₱1,496,588,292	₱4,700,483,138

In September 2020, the Company closed two stores and derecognized the related leasehold improvements with a carrying value of ₱322.29 million. This was included under “Loss on stores closure - net” in the Operating Expenses section of the statements of comprehensive income (see Note 19). Additionally, the Company recognized provision for impairment loss for the remaining immovable property and equipment of the closed stores with a carrying amount of ₱33.50 million under “Provision for impairment of nonfinancial assets” in the Operating Expenses section of the statement of comprehensive income (see Note 19).

The Company retired other property and equipment from various stores with carrying values of ₱4.53 million and ₱3.00 million in 2020 and 2019, respectively. This was included under “Others” in the Other (Charges) Income section of the statements of comprehensive income (see Note 17)

Construction-in-progress pertains to ongoing construction of building and leasehold improvement on stores, installation and related activities of certain leasehold improvements or other equipment necessary to prepare it for use. These are located in various locations and are transferred to the related property and equipment account once construction is completed and is ready for service. In 2020, the Company capitalized depreciation expense of right-of-use assets and finance cost on lease liabilities to property and equipment under construction amounting to ₱13.91 million and ₱32.85 million, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2020 and 2019.

The Company has contractual purchase commitments related to construction-in-progress amounted to ₱178.59 million and ₱186.05 million as of December 31, 2020 and 2019, respectively.



10. Other Noncurrent Assets

This account consists of:

	2020	2019
Deposits	₱454,385,733	₱464,311,328
Advances to nontrade suppliers		
Third parties	121,457,118	242,260,895
Related parties (Note 22)	34,835,265	213,594,590
Deferred input VAT	118,624,390	142,808,254
	729,302,506	1,062,975,067
Less allowance for impairment loss (Note 19)	8,772,248	36,941,072
	₱720,530,258	₱1,026,033,995

Deposits consist of the following:

	2020	2019
Deposit for future land acquisition	₱172,310,600	₱86,155,300
Security deposits	132,467,084	232,735,371
Deposit to utility companies	102,693,700	100,471,171
Advance rentals	46,914,349	44,949,486
	₱454,385,733	₱464,311,328

Accretions of the security deposits amounted to ₱7.45 million, ₱7.14 million and ₱3.07 million in 2020, 2019 and 2018, respectively and are presented under "Interest and other income" in the statements of comprehensive income (see Note 17).

Advances to nontrade suppliers pertain to advance payments made for the acquisition of property and equipment and are to be delivered up to six months.

Deferred input VAT arises from purchases of capital goods above ₱1.00 million. This is amortized for a period of five years or over the useful life of the asset purchased, whichever is shorter.

Allowance for impairment losses pertains to long outstanding advances to nontrade suppliers and security deposits. In 2020, allowance for impairment loss as a result of the closure of a non-performing store in 2018 was written-off.

Movements in the allowance for impairment loss for security deposit and advances to supplier follow:

<u>Security deposits</u>	2020	2019	2018
Beginning of year	₱28,168,824	₱28,168,824	₱28,168,824
Write-off	(28,168,824)	-	-
End of year	₱-	₱28,168,824	₱28,168,824



<u>Advances to supplier</u>	2020	2019	2018
Beginning of year	₱8,772,248	₱20,875,102	₱-
Provision for impairment loss (Note 19)	-	6,226,120	20,875,102
Write-off	-	(18,328,974)	-
End of year	₱8,772,248	₱8,772,248	₱20,875,102

11. Trade and Other Payables

This account consists of:

	2020	2019
Trade		
Third parties	₱2,803,894,480	₱3,559,741,196
Related parties (Note 22)	17,379,792	66,477,560
Nontrade		
Third parties	933,812,743	818,801,631
Related parties (Note 22)	6,528,437	6,582,946
Accrued expenses	433,171,456	384,938,764
Credit cash bonds	289,691,212	328,537,168
Output VAT – net	-	115,835,443
Others	157,854,274	128,585,144
	₱4,642,332,394	₱5,409,499,852

Trade payables pertain to payables to third parties and related parties arising mainly from purchases of merchandise inventories. These are generally noninterest-bearing and are normally settled in 30 days.

Nontrade payables consist of purchases of supplies, property and equipment and other services and retention payables to contractors for the Company's store equipment, leasehold improvements and liabilities in line with the Company's operating expenses. These are normally settled within twelve months.

Accrued expenses consist of:

	2020	2019
Suppliers and contractors	₱142,096,805	₱107,416,515
Rentals	69,640,659	61,595,227
Utilities	68,486,286	67,493,995
Marketing-related cost	23,106,163	37,418,704
Professional fees	11,441,838	13,370,954
Other accruals	118,399,705	97,643,369
	₱433,171,456	₱384,938,764

Other accruals pertain to sick leave and vacation leave credits, government remittances, and other operating related expenses.



Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This can also be refunded if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate ranging from 1% to 6% based on accumulated cash bond and purchases volume. Finance cost included in profit or loss pertaining to cash bonds amounted to ₱12.13 million, ₱15.43 million and ₱16.57 million in 2020, 2019 and 2018, respectively. Interest incurred from cash bonds are settled through deduction from the credit account holders' receivable balance (see Note 17).

Others include amounts payable to government agencies for mandatory contributions and payments to the SSS, Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, current portion of tenant's deposits which pertains to security deposits from tenants for the lease of space in the Company's stores with remaining lease period of one year or less from reporting period (see Note 14) and other sundry payables.

12. Contract Liabilities

This account consists of:

	2020	2019
Gift check outstanding	₱38,111,342	₱51,457,929
Accrued customer loyalty reward	25,340,315	25,348,205
Stored value cards	18,682,083	26,719,703
	₱82,133,740	₱103,525,837

These items can only be redeemed from the Company's own stores. These are expected to be redeemed within twelve months.

The rollforward analysis of this account follows:

	2020	2019
Beginning of year	₱103,525,837	₱103,195,660
Deferred during the year	1,417,032,154	3,150,688,470
Recognized as revenue during the year	(1,438,424,251)	(3,150,358,293)
End of year	₱82,133,740	₱103,525,837

13. Loans Payable

On various dates in 2020 and 2019, the Company availed short-term notes payable from local banks in an aggregate amount of ₱1,500.00 million and ₱200 million, respectively, with floating interest rates ranging from 3.0% to 5.25% per annum.

The loan is payable within twelve months after the reporting date and were availed for additional working capital requirements. The Company has no collateral, no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2020.



Interest expense from short-term bank loans amounted to ₱21.95 million and ₱1.91 million in 2020 and 2019, respectively (see Note 17).

As of December 31, 2020 and 2019, outstanding loans payable amounted to ₱1,500.00 million and nil, respectively.

14. Other Noncurrent Liabilities

Other noncurrent liabilities pertain to security deposits from tenants for the lease of space in the Company's stores, with remaining lease period of more than one year from the reporting period. These security deposits are refundable to the tenants upon termination of contract.

Other noncurrent liabilities as of December 31, 2020 and 2019 amounted to ₱5.62 million and ₱65.74 million, respectively (see Note 24 and 27).

15. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2020 and 2019 are as follows:

	No. of shares	Amount
Common stock - ₱1.00 par value		
Authorized	10,000,000,000	₱10,000,000,000
Issued and outstanding	3,429,375,000	₱3,429,375,000

The Company was listed on the Main Board of the PSE on November 24, 2015 wherein it offered 905,375,000 shares at an offer price of ₱3.99 per share.

As of December 31, 2020 and 2019, the Company has 23 existing shareholders.

Additional Paid-in Capital

The Company recorded additional paid-in capital amounting to ₱2,455.54 million, net of transaction costs. The Company incurred transaction costs incidental to the IPO amounting to ₱251.53 million charged against "Additional paid-in capital" in the statements of financial position.

Stock Option Plan

The BOD 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. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of December 31, 2020 and 2019.

Retained Earnings

On May 14, 2020, the BOD approved the declaration of cash dividends amounting to ₱205.76 million or ₱0.06 per share, out of the Company's retained earnings as of December 31, 2019 to stockholders of record as of May 29, 2020 which was paid on June 15, 2020.



On March 18, 2019, the BOD approved the declaration of cash dividends amounting to ₱205.76 million or 0.06 per share, out of the Company's retained earnings as of December 31, 2018 to stockholders of record as of April 15, 2019 to be paid on May 2, 2019.

On March 16, 2018, the BOD approved the declaration of cash dividends amounting to ₱205.76 million or ₱0.06 per share, out of the Company's retained earnings as of December 31, 2017 to stockholders of record as of April 13, 2018 and was paid on May 2, 2018.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2020 amounted to ₱2,138.42 million.

Capital Management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2020 and 2019. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2020	2019
Capital stock	₱3,429,375,000	₱3,429,375,000
Additional paid-in capital	2,455,542,149	2,455,542,149
Retained earnings	2,690,003,170	3,345,357,261
	₱8,574,920,319	₱9,230,274,410

16. Revenue from Contracts with Customers

All of the Company's net sales and portion of other income are revenue from contracts with customers recognized at a point in time or when it transfers control of a product to a customer.

The Company's revenue from contracts with customers which are accounted for under PFRS 15 are presented in the statements of comprehensive as follows:

	2020	2019	2018
Net sales	₱31,286,312,987	₱36,790,177,798	₱33,050,084,154
Other income (Note 17)			
Scrap sales	4,932,774	7,938,388	11,167,237
Others	30,834,628	69,168,785	32,961,803
	₱31,322,080,389	₱36,867,284,971	₱33,094,213,194



The following table disaggregates the Company's net sales by geographical markets and major goods or service lines for the year ended December 31, 2020 and 2019:

	2020	2019	2018
Geographical markets			
Luzon	₱11,456,946,134	₱14,635,972,380	₱13,846,959,038
Visayas	19,829,366,853	22,154,205,418	19,203,125,116
Total revenue from contracts with customers from net sales	₱31,286,312,987	₱36,790,177,798	₱33,050,084,154
Major goods/service lines			
Food retail	₱24,434,738,268	₱24,160,819,141	₱21,058,429,818
General merchandise	6,851,574,719	12,629,358,657	11,991,654,336
Total revenue from contracts with customers from net sales	₱31,286,312,987	₱36,790,177,798	₱33,050,084,154

17. Other (Charges) Income

Interest and other income

	2020	2019	2018
Gain on insurance claims - net (Notes 6 and 7)	₱104,364,149	₱538,743,310	₱350,681,819
Gain on lease modification (Note 24)	84,463,838	-	-
Interest income (Notes 4, 5 and 10)	50,751,483	101,905,155	75,072,483
Scrap sales (Note 16)	4,932,774	7,938,388	11,167,237
Foreign currency exchange (loss) gain	(6,164,814)	(8,451,855)	20,721,700
Others (Note 16)	30,834,628	69,168,785	32,961,803
	₱269,182,058	₱709,303,783	₱490,605,042

Gain on insurance claims pertains to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims in relation to the 2018 fire incident. The gain recognized in 2018 is net of the total costs of damaged properties amounting to ₱349.68 million (Note 7). The business interruption fixed expenses incurred in 2018, relating to the damaged store amounting to ₱231.57 million were recognized under various operating expenses (see Note 19).

Interest income pertains to the interest earned from deposits in banks, cash placements and finance charges earned from short-term installment receivables from guarantors and employees.

Scrap sales pertain to the sale of non-reusable cartons, sacks, containers, and other scrap items from the Company's stores.

Others include income from various sources such as parking income, lotto operations, penalties and others.



Finance costs

	2020	2019	2018
Finance cost on lease liabilities (Note 24)	₱478,109,609	₱590,149,819	₱-
Interest expense from short-term bank loans (Note 13)	21,945,833	1,906,565	-
Interest expense on cash bond (Note 11)	12,127,998	15,427,012	16,571,184
Finance cost on finance lease liability (Note 24)	-	-	2,469,947
	₱512,183,440	₱607,483,396	₱19,041,131

18. Cost of Sales

	2020	2019	2018
Cost of merchandise sold (Note 7)	₱24,885,943,294	₱28,554,688,612	₱25,609,645,879
Others (Notes 9, 19 and 20)	74,230,573	37,855,425	40,372,543
	₱24,960,173,867	₱28,592,544,037	₱25,650,018,422

Others pertain to, direct labor, other overhead costs and provisions for decline in inventories value.

Depreciation and amortization charged to cost of sales amounted to ₱0.15 million, ₱0.64 million and ₱1.85 million in 2020, 2019 and 2018, respectively.

19. Operating Expenses

	2020	2019	2018
Personnel cost (Note 20)	₱1,983,235,812	₱2,283,189,777	₱2,148,349,706
Depreciation and amortization of right-of-use assets – net (Note 24)	859,437,309	1,241,452,884	-
Light, water and communication	690,812,973	836,149,002	771,554,452
Rental (Notes 22 and 24)	584,216,674	492,153,089	1,655,368,522
Depreciation and amortization of property and equipment (Note 9)	497,297,401	480,256,688	488,510,195
Taxes and licenses	450,029,872	420,162,088	335,216,318
Contracted services	340,482,025	359,636,298	323,312,764
Repairs and maintenance	227,485,633	282,022,862	228,491,256
Loss on stores closure – net	217,449,025	-	-
Supplies	158,615,888	213,340,903	182,115,321
Provision for:			
Impairment of nonfinancial assets (Notes 8, 9, 10 and 24)	133,358,471	6,226,120	26,859,905
Impairment of receivables (Note 6)	19,982,920	-	-

(Forward)



	2020	2019	2018
Advertising	₱108,373,223	₱191,018,105	₱172,889,025
Insurance	105,559,758	95,196,363	62,853,099
Commission	86,484,112	101,935,047	84,837,363
Professional fees	85,032,406	141,486,717	91,367,699
Transportation and travel	84,235,819	102,071,703	102,573,301
Subscriptions	76,725,647	66,698,919	40,791,458
Write-off of assets (Notes 6 and 8)	4,309,328	4,662,102	11,344,445
Others	62,375,554	72,527,696	32,364,940
	₱6,775,499,850	₱7,390,186,363	₱6,758,799,769

Depreciation and amortization of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions amounting to ₱228.16 million (see Note 24).

Loss on stores closure pertains to loss on retirement of property and equipment as a result of permanent stores closure amounting to ₱322.29 million (see Note 9), net of gain on pre-termination of lease contract amounting to ₱104.84 million (see Note 24).

Provision for impairment of nonfinancial assets pertains to provisions for impairment of property and equipment as a result of permanent store closures, right-of-use assets arising from the Company's planned reduction of lease premises in 2021, and long outstanding advances to supplier and nonrefundable deposits relating to lease agreements that were already terminated.

Write-off of assets pertain to receivables and advances to suppliers where there is no reasonable expectation of recovery and long outstanding advances to supplier.

Others pertain to representation, entertainment, donations and contributions.

20. Personnel Cost

	2020	2019	2018
Salaries and wages	₱1,603,655,194	₱1,925,955,546	₱1,793,136,308
Retirement benefits costs (Note 21)	88,378,081	58,373,098	47,134,866
Other employee benefits	347,405,228	362,643,778	353,384,477
	₱2,039,438,503	₱2,346,972,422	₱2,193,655,651

Personnel cost that were recognized as cost of sales amounted to ₱20.92 million, ₱27.04 million and ₱26.90 million in 2020, 2019 and 2018, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱35.29 million, ₱36.74 million and ₱18.40 million in 2020, 2019 and 2018, respectively (see Note 9).

Other employee benefits consist of the required employer contributions to SSS, PHIC and HDMF, 13th month pay and other incentives.



21. Retirement Benefit Obligation

The Company has an unfunded, noncontributory defined benefit retirement plan. The accounting method and actuarial assumptions used were in accordance with the provisions of PAS 19. Actuarial valuation by an independent actuary was made based on employee data as of valuation dates.

The following tables summarize the components of the retirement benefit costs and the retirement benefit obligation recognized in the statements of financial position for the Company's retirement plan.

The components of net retirement benefit expense (included in "Personnel cost" under "Operating expenses") in the statements of comprehensive income are as follows:

	2020	2019	2018
Current service cost	₱39,054,536	₱28,111,567	₱25,558,718
Interest cost	27,033,643	30,261,531	21,576,148
Past service cost: curtailment	22,289,902	-	-
	₱88,378,081	₱58,373,098	₱47,134,866

The remeasurement effects recognized in other comprehensive income (included in "Equity" under "Remeasurement (losses) gains on defined benefit obligation") in the statements of financial position are as follows:

	2020	2019	2018
Actuarial (loss) gain due to:			
Changes in financial assumptions	(₱79,088,409)	(₱62,890,118)	(₱13,480,268)
Experience adjustments	15,837,781	10,122,832	13,680,128
	(₱63,250,628)	(₱52,767,286)	₱199,860

The rollforward analyses of the present value of retirement benefits obligation follow:

	2020	2019
Balance at beginning of year	₱500,623,022	₱393,006,901
Current service cost	39,054,536	28,111,567
Interest cost	27,033,643	30,261,531
Past service cost:- curtailment	22,289,902	-
Benefits paid (retirement)	(14,685,784)	(3,524,263)
Benefits paid (retrenchment)	(73,957,944)	-
Actuarial (gain) loss due to:		
Changes in financial assumptions	79,088,409	62,890,118
Experience adjustments	(15,837,781)	(10,122,832)
Balance at end of year	₱563,608,003	₱500,623,022

The benefits paid (retrenchment) is in connection with the Company's workforce rationalization and rightsizing program in response to the impact of COVID-19 pandemic.



The principal actuarial assumptions used in determining retirement obligations are as follows:

	2020	2019	2018
Salary increase rate	4.00%	4.00%	5.00%
Discount rate	4.00%	5.40%	7.70%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the valuation date are open to subjectivity, assuming if all other assumptions were held constant and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

	2020		2019	
	Increase (decrease)	Net Retirement benefit liability	Increase (decrease)	Net Retirement benefit liability
Discount Rates	+1.0%	(P58,480,640)	+0.5%	(P25,349,212)
	-1.0%	70,441,758	-0.5%	27,652,247
Salary increase rate	+1.0%	P66,468,868	+0.5%	P26,529,004
	-1.0%	(56,363,300)	-0.5%	(24,547,058)

The Company does not maintain a fund for its retirement benefit obligation. Shown below is the maturity analysis of the benefit payments as of December 31:

	2020	2019
1 year and less	P-	P-
More than one year to 5 years	196,488,026	172,413,195
More than 5 years to 10 years	181,637,772	197,773,022
More than 10 years to 15 years	349,244,236	402,914,539
More than 15 years to 20 years	2,538,882,647	3,026,805,120
	P3,266,252,681	P3,799,905,876

The weighted average duration of the defined benefit obligation is 14 years in 2020 and 2019.

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at terms agreed by the parties. Outstanding balances at year end are unsecured, noninterest-bearing and settled in cash usually within one year. There have been no guarantees or collaterals provided or received for any related party receivables or payables.



The significant related party transactions and outstanding balances as of and for the years ended December 31, 2020 and 2019 are as follows:

December 31, 2020

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 6), (a)	₱16,219,314	₱2,115,219	Noninterest-bearing and due in 30 days, not impaired
Prepayments on rentals (Note 8), (b)	985,159,210	1,077,567	Noninterest-bearing and for application within 30 days, not impaired
<i>Entities Under Common Control</i>			
Advances and rental income (Note 6), (c)	75,850,972	40,303,595	Noninterest-bearing and due in 30 days, not impaired
Sale of goods (Note 6), (d)	447,063	362,203	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (Notes 8 and 10), (d)	867,391,440	152,657,766	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱196,516,350	
	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 24), (b)	₱43,147,196	(₱189,605,821)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 11), (e)	44,226,804	-	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase of goods (Note 11), (d)	133,602,494	(17,379,792)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (Note 11), (c)	75,228,252	(6,528,437)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱213,514,050)	



December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 6), (a)	₱28,634,943	₱2,850,946	Noninterest-bearing and due in 30 days, not impaired
Prepayments on rentals (Note 8), (b)	1,178,946,184	2,780,424	Noninterest-bearing and for application within 30 days, not impaired
<i>Entities Under Common Control</i>			
Sale of goods (Note 6), (d)	1,380,537	1,409,351	Noninterest-bearing and due in 30 days, not impaired
Advances and rental income (Note 6), (c)	91,660,047	15,303,242	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (Notes 8 and 10), (d)	1,028,799,563	447,840,129	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱470,184,092	
	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 24), (b)	₱1,701,740,198*	(₱1,077,186,151)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 11), (e)	99,175,258	-	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase of goods (Note 11), (d)	178,242,225	(66,477,560)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (Note 11), (c)	62,938,553	(6,582,946)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱1,150,246,657)	

*Due to adoption of PFRS 16

The Company, in the normal course of business, entered into the following transactions with related parties:

- a. Advances to VDC pertain to expenses paid by the Company on behalf of VDC.
- b. Rentals from leases for the Company's store spaces and warehouses. The Company recognized "Lease liabilities" for fixed rent and "Prepayments" under Other Current Assets representing



advance payments to the lessor to be applied to the subsequent billing and “Trade and other payables” for variable rent as of December 31, 2020 and 2019, respectively.

- c. The Company has receivables and payables pertaining to rental transactions in the Company’s stores. These are noninterest-bearing and are collectible within 30 days.
- d. The Company has short-term noninterest-bearing receivables and payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
- e. The Company entered into an agreement with VDC for legal and other services. Management fee is lodged in “Contracted services” under “Operating expenses” in the statements of comprehensive income.

The Company has an approval requirement and limits on the amount and extent on any related party transactions which is 10% or higher of the Company’s total assets based on its latest audited financial statements.

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱906.03 million and ₱1,249.04 million in 2020 and 2019, respectively, which earn interest based on prevailing market interest rates amounting to ₱25.97 million and ₱46.07 million and in 2020 and 2019, respectively.

Compensation of the Company’s key management personnel by benefit type follows:

	2020	2019	2018
Short-term employee benefits	₱128,968,021	₱122,494,445	₱132,824,561
Post-employment benefits	8,565,056	2,611,029	4,483,218

There are no amounts due to or due from members of key management as of December 31, 2020 and 2019.

The Company has not recognized any impairment losses on amounts due from related parties in 2020 and 2019. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

23. Income Taxes

Provision for income tax consists of:

	2020	2019	2018
Current			
MCIT/RCIT	₱134,045,862	₱513,211,025	₱370,560,574
Final	9,840,326	16,672,349	13,766,405
	143,886,188	529,883,374	384,326,979
Deferred	(239,813,226)	(140,450,099)	(3,123,004)
	(₱95,927,038)	₱389,433,275	₱381,203,975

The Company’s provision for current income tax in 2020 represents MCIT. Provision for current income tax in 2019 and 2018 both represents RCIT.



The components of the Company's net deferred tax assets are as follows:

	2020	2019
Lease liabilities (Note 24)	₱1,806,585,082	2,405,399,523
Retirement benefit obligation (Note 21)	169,082,401	₱150,186,906
Excess MCIT	134,045,863	-
NOLCO	44,562,107	-
Provision for decline in value of inventories (Note 7)	13,639,580	-
Allowance for impairment of property and equipment (Note 9)	10,048,847	-
Allowance for impairment of receivables (Note 6)	9,478,600	3,483,724
Contract liability from customer loyalty program (Note 12)	7,602,094	7,604,461
Allowance for impairment of advances to suppliers (Note 10)	2,644,210	2,644,210
Provisions (Note 19)	964,997	19,061,580
Nontaxable excess of insurance proceeds on damaged fixed assets	(25,265,830)	(25,265,830)
Right-of-use assets, including provision for impairment losses (Note 24)	(1,605,324,022)	(2,253,839,060)
	₱568,063,929	₱309,275,514

The Company recognized net deferred tax asset amounting to ₱18.98 million in 2020 and net deferred tax asset amounting to ₱15.83 million in 2019 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

Details of the Company's excess MCIT over RCIT as of December 31, 2020 follow:

Year Incurred	Amount	Used	Balance	Expiry
2020	₱134,045,863	₱-	₱134,045,863	2023

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Company has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Year/s	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2020	2021-2025	₱148,540,357	₱-	₱-	₱-	₱148,540,357



The reconciliation of statutory income tax rate to effective income tax rate follows:

	2020	2019	2018
Tax at 30% on income before tax	(P163,655,589)	P349,523,401	P403,974,448
Tax effects of:			
Nondeductible expenses	70,792,980	25,648,551	9,760,279
Income subjected to final tax	(3,064,429)	(11,004,507)	(7,264,922)
Nontaxable excess of insurance proceeds on damaged fixed assets	-	25,265,830	(25,265,830)
	(95,927,038)	P389,433,275	P381,203,975

24. Lease Commitments

Company as a lessee

The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. The Company also entered into lease arrangements covering various computer equipment used in the operations of the Company. These leases have terms ranging from one to 41 years and generally provide for either: (a) fixed monthly rent; or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market conditions.

The Company's obligations under its leases are subject to interest and penalty in cases of default of payment. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of equipment and staff-houses with lease terms of 12 months or less and leases of equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets follows:

December 31, 2020

	Land	Building	IT Equipment	Others	Total
Cost					
At January 1, 2020	P1,671,903,900	P7,023,538,757	P102,522,596	P1,213,834	P8,799,179,087
Additions	-	104,654,288	-	-	104,654,288
Lease modification	104,184,693	(1,089,643,091)	(11,536,631)	-	(996,995,029)
Asset retirement	-	(905,201,740)	-	(1,213,834)	(906,415,574)
At December 31, 2020	1,776,088,593	5,133,348,214	90,985,965	-	7,000,422,772
Accumulated Depreciation and Amortization					
At January 1, 2020	265,700,613	958,408,226	61,545,082	728,300	1,286,382,221
Depreciation	273,549,876	803,127,725	24,343,790	485,534	1,101,506,925
Lease modification	-	(820,594,360)	-	-	(820,594,360)
Asset retirement	-	(73,692,608)	-	(1,213,834)	(74,906,442)
At December 31, 2020	539,250,489	867,248,983	85,888,872	-	1,492,388,344
	1,236,838,104	4,266,099,231	5,097,093	-	5,508,034,428
Less allowance for impairment losses	-	99,862,314	-	-	99,862,314
Net Book Value	P1,236,838,104	P4,166,236,917	P5,097,093	P-	P5,408,172,114



December 31, 2019

	Land	Building	IT Equipment	Others	Total
<u>Cost</u>					
At January 1, 2019	₱1,633,043,394	₱6,557,002,893	₱112,675,698	₱1,213,834	₱8,303,935,819
Additions	38,860,506	466,535,864	-	-	505,396,370
Lease modification	-	-	(10,153,102)	-	(10,153,102)
At December 31, 2019	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087
<u>Accumulated Depreciation and Amortization</u>					
At January 1, 2019	-	-	₱44,929,336	-	44,929,336
Depreciation	265,700,613	958,408,226	16,615,746	728,300	1,241,452,885
At December 31, 2019	265,700,613	958,408,226	61,545,082	728,300	1,286,382,221
Net Book Value	₱1,406,203,287	₱6,065,130,531	₱40,977,514	₱485,534	₱7,512,796,866

In 2020, the Company derecognized right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively, due to the pre-termination of leases on stores closed, resulting to a recognition of gain amounting to ₱104.84 million, which is presented net of the loss on retirement of assets from stores closure (see Notes 9 and 19).

In 2020, depreciation expense of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions amounting to ₱228.16 million (see Note 2).

In 2020, the Company capitalized depreciation expense of right-of-use assets to property and equipment under construction amounting to ₱13.91 million (see Note 9).

In 2020, the Company had plans of reducing leased premises in some of its stores in early 2021 and noted that this is an indicator of impairment on the right-of-use assets. As a result, the Company assessed the recoverable amount and recognized provision for impairment loss on right-of-use assets amounting to ₱99.86 million.

In 2020, the Company entered into various agreements to revise existing lease agreements with its lessors which were accounted for by the Company as lease modifications resulting to a gain amounting to ₱84.46 million.

The following are the amounts recognized in statements of income:

	2020	2019
Depreciation expense of right-of-use assets - net (Note 19)	₱859,437,309	₱1,241,452,884
Variable lease payments (Note 19)*	515,271,952	427,261,654
Finance cost on lease liabilities (Note 17)	478,109,609	590,149,820
Expenses relating to short-term leases (Note 19)*	68,944,722	64,891,435
Gain on lease modification (Note 17)	(84,463,838)	-
Total amount recognized in statement of income	₱1,837,299,754	₱2,323,755,793

*Included in "Rental" under "Operating Expenses" in the statement of comprehensive income

In 2018, the Company recognized rentals from operating leases amounting to ₱1,655.37 million which is included in "Rental" under "Operating Expenses" in the statement of comprehensive income (see Note 19).



The rollforward analysis of lease liabilities follows:

	2020	2019
At beginning of year	₱7,819,087,830	₱8,044,061,918
Finance cost (Note 17)	510,956,120	590,149,820
Additions	90,602,317	495,348,998
Waived rentals	(228,161,556)	-
Payments	(1,001,989,894)	(1,300,319,804)
Lease modification	(1,168,544,546)	(10,153,102)
At end of year	₱6,021,950,271	₱7,819,087,830

In 2020, the Company capitalized finance cost on lease liabilities to property and equipment under construction amounting to ₱32.85 million (see Note 9).

Classification of lease liabilities is as follows:

	2020	2019
Current portion	₱479,564,316	₱949,045,108
Noncurrent portion	5,542,385,955	6,870,042,722
	₱6,021,950,271	₱7,819,087,830

Shown below is the maturity analysis of the undiscounted lease payments:

	2020	2019
Within one year	₱847,590,780	₱1,422,083,013
More than one year but not more than five years	2,477,403,559	3,218,667,253
More than five years	₱8,808,780,064	₱10,860,085,882

Company as lessor

The Company entered into lease agreements with tenants for the use of space in the Company's stores. These lease agreements have terms ranging from one to four years. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market rate conditions.

Tenants are required to pay for security deposits, subject to adjustment if minimum rent increases; refundable at the end of the lease term, after deducting the amount of damages to the leased premises and unpaid charges, if any. Security deposits amounted to ₱63.32 million and ₱65.74 million as of December 31, 2020 and 2019, respectively (Notes 11 and 14). Rental income amounted to ₱146.84 million, ₱255.81 million and ₱233.75 million in 2020, 2019 and 2018, respectively.

Shown below is the maturity analysis of the undiscounted lease payments to be received:

	2020	2019
Within one year	₱32,449,614	₱118,751,387
More than one year but not more than five years	56,046,864	38,745,780
More than five years	-	-



25. Earnings (Loss) Per Share

The following table presents information necessary to calculate EPS on net income:

	2020	2019	2018
Net income	(P449,591,591)	₱775,644,731	₱965,377,520
Weighted-average number of common shares (Note 15)	3,429,375,000	3,429,375,000	3,429,375,000
Basic/Diluted Earnings (Loss) Per Share	(P0.13)	₱0.23	₱0.28

There are no potentially dilutive common shares as of December 31, 2020, 2019 and 2018.

26. Segment Reporting

The Company has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8.

The Company's store operations is its only income generating activity and such is the measure used by the CODM in allocating resources.

The Company conducts its operations through the following store formats:

Department Stores

Department stores are engaged in the business of trading goods, commodities, wares and merchandise of any kind, such as clothes, bags, accessories, toys, and household goods.

Supermarket

Supermarkets offer a wide selection of meats, seafoods, fruits and vegetables and organic produce. This format also offers ancillary services such as pharmacy, bakeshop, café and fastfood outlets. A supermarket maybe a stand-alone supermarket or opened together with a department store.

Hypermarkets

Hypermarkets consist of "superstores" which is a combination of supermarket and department store which offer a wide range of product including full grocery lines and general merchandise.

The Company does not report its results based on geographical segments. The Company has no significant customer which contributes 10% or more to the revenues of the Company.



27. Financial Instruments

Fair Value of Financial Instruments

As of December 31, 2020 and 2019, the Company has no financial asset and liability carried at fair value.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Financial Assets

Due to the short-term nature of the transaction, the fair values of cash and cash equivalents, short-term investments, trade receivables, rentals and receivable from related parties, other receivables (Claims from insurers and accrued interest receivable) and security deposits under "Other current assets" approximate the carrying values at year-end.

The fair value of security deposits lodged in "Deposits" under "Other noncurrent assets" is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Security deposits, net of allowance for impairment losses (Note 10)	₱230,706,976	₱200,634,061	₱305,037,717	₱253,493,540

The fair value of security deposits lodged in "Deposits" under "Other noncurrent assets" were based on the discounted value of future cash flow using applicable interest rates ranging from 1.35% to 4.19% for 2020 and 3.46% to 5.23% in 2019.

Financial Liabilities

Due to the short-term nature of trade and other payables (excluding statutory payables), loans payable, current portions of lease liabilities, their carrying values approximate fair value.

The fair value of tenant's deposits under "Other noncurrent liabilities" is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Other noncurrent liabilities (Note 14)	₱5,624,863	₱5,319,164	₱65,737,958	₱63,567,140



The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 1.98% to 2.78% for 2020 and 3.80% to 4.31% for 2019.

There were no transfers between levels 1, 2 and 3.

Financial Risk Management Objectives and Policies

The main purpose of the Company's financial instruments is to fund its operations and capital expenditures. The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

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. The Company's exposure to liquidity risk relates primarily to its short-term obligations.

The Company seeks to manage its 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 it to finance its operating expenses. The Company has a total available credit line of up to ₱10,800 million and ₱11,000 million with various local banks as of December 31, 2020 and 2019, respectively.

The Company maintains a level of cash deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows.

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2020 and 2019 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 2020

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱-	₱2,803,894,480	₱-	₱2,803,894,480
Related parties	-	17,379,792	-	17,379,792
Nontrade				
Third parties	-	933,812,743	-	933,812,743
Related parties	-	6,528,437	-	6,528,437
Accrued expenses	-	433,171,456	-	433,171,456
Credit cash bonds	-	289,691,212	-	289,691,212
Others*	-	87,743,535	-	87,743,535
Lease liabilities	-	847,590,780	11,286,183,623	12,133,774,403
Other noncurrent liabilities	-	-	5,624,863	5,624,863
	₱-	₱5,419,812,435	₱11,291,808,486	₱16,711,620,921

*excluding statutory payables



December 31, 2019

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱-	₱3,559,741,196	₱-	₱3,559,741,196
Related parties	-	66,477,560	-	66,477,560
Nontrade				
Third parties	-	818,801,631	-	818,801,631
Related parties	-	6,582,946	-	6,582,946
Accrued expenses	-	384,938,764	-	384,938,764
Credit cash bonds	-	328,537,168	-	328,537,168
Lease liabilities	-	1,422,083,013	14,078,753,135	15,500,836,148
Others*	-	33,629,691	-	33,629,691
Other noncurrent liabilities	-	-	65,737,958	65,737,958
	₱-	₱6,620,791,969	₱14,144,491,093	₱20,765,283,062

*excluding statutory payables

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.

The Company's receivables are actively monitored by its collection department to avoid significant concentrations of credit risk.

The Company manages the level of credit risk it accepts through comprehensive credit risk policies setting out the assessment and determination of what constitutes credit risk for the Company. The Company's policies include: setting up of exposure limits for each counterparty; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

The table below shows the maximum exposure of the Company to credit risk:

	2020			
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
Receivables:				
Trade				
Third parties	₱591,889,200	₱176,207,811	₱405,681,389	₱176,207,811
Related parties	362,203	-	662,203	-
Nontrade				
Related parties	42,418,814	-	42,118,814	-
Rentals	30,863,966	9,517,056	21,346,910	9,517,056
Accrued interest receivable	8,256,342	-	8,256,342	-
Others*	12,359,418	-	12,359,418	-
	₱686,149,943	₱185,724,867	₱490,425,076	₱185,724,867

*excluding receivable from SSS amounting to ₱17,573,068



2019				
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
Receivables:				
Trade				
Third parties	₱952,711,790	₱285,334,581	₱667,377,209	₱285,334,581
Related parties	1,409,351	-	1,409,351	-
Nontrade				
Receivable from insurance	104,364,149	-	104,364,149	-
Rentals	37,449,489	5,992,626	31,456,863	5,992,626
Related parties	18,154,188	-	18,154,188	-
Accrued interest receivable	14,518,808	-	14,518,808	-
Others*	15,500,741	-	15,500,741	-
	₱1,144,108,516	₱291,327,207	₱852,781,309	₱291,327,207

*excluding receivable from SSS amounting to ₱9,674,781

Collaterals or credit enhancements pertain to cash bonds posted by credit account holders to secure payment of credit purchases through the Company's credit facilities. These also pertain to tenants' security deposits which shall be applied against the tenants' last billing.

Impairment of financial assets

The Company has the following financial assets that are subject to the expected credit loss model:

- trade receivables from third party and related parties for sales of inventory;
- rent receivables from third party and related parties for rental of spaces;
- other debt instruments carried at amortized cost

Other debt instruments carried at amortized cost include cash and cash equivalents, short-term investments, accrued interest receivables, refundable security deposits and receivable from insurance. These are also subject to the impairment requirements of PFRS 9, the identified impairment losses were immaterial.

Trade and rent receivables

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and rent receivables. To measure the expected credit losses, trade and rent receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade and rent receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the country in which it sells its goods and accordingly adjusts the historical loss rates based on expected changes in these factors.



Below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix as of December 31, 2020 (nil in 2019):

Trade receivables

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	0.01%	91.42%	
Gross carrying amount	₱568,649,225	₱23,239,975	₱591,889,200
ECL	349,760	21,245,572	21,595,332

Rental

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	32.40%	0.00%	
Gross carrying amount	₱30,863,966	₱-	₱30,863,966
ECL	₱10,000,000	-	₱10,000,000

In 2020, the Company recognized provision for impairment loss on trade receivables and rentals amounting to ₱9.98 million and ₱10.00 million, respectively (see Note 6).

Trade receivables are written off when there is no reasonable expectation of recovery. All of the indicators that there is no reasonable expectation of recovery should be present prior to write off which include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, debtor is experiencing significant financial difficulties, and a failure to make contractual payments for a period of greater than 90 days past due. Provisions are measured using Stage 3 ECL where receivables are considered credit impaired.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

28. Note to Statement of Cash Flows

The Company's noncash activities are as follows:

- a) In 2020, depreciation and amortization of right-of-use assets amounting to ₱13.91 million and interest expense on lease liabilities amounting to ₱32.85 million were capitalized to "Construction-in-progress" under "Property and equipment" account (see Note 9).
- b) In September 2020, the Company closed non-performing department stores and as a result, the Company retired the related leasehold improvements with a carrying value of ₱322.29 million recognized under "Loss on stores closure - net", which is net of gain on pre-termination of lease contract arising from derecognition of right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively, amounting to ₱104.84 million (see Notes 9 and 19)
- c) In 2020, the Company recognized provision for impairment losses amounting to ₱33.50 million pertaining to property and equipment which may not be recoverable due to the closure of non-performing department stores during the year (see Notes 9 and 19). In addition, the Company



- recognized provision for impairment losses amounting to ₱99.86 million pertaining to right-of-use assets arising from the Company's planned reduction of leased premises in 2021.
- d) In 2020, the Company entered into various agreements to revise existing lease agreements with its lessors which were accounted for by the Company as lease modifications resulting to gain amounting to ₱84.46 million (see Note 24).
 - e) Transfers from advances to suppliers to property and equipment amounted to ₱327.99 million, ₱23.73 million and ₱7.33 million for 2020, 2019 and 2018, respectively.
 - f) Reclassification of leased computer equipment amounting to ₱67.75 million from property and equipment to right-of-use assets as of January 1, 2019 upon adoption of PFRS 16. On the same date, the Company entered into new terms and payments with the lessor for the lease of the computer equipment which resulted to lease modification and reduced the right-of-use assets by ₱10.15 million (see Note 24).
 - g) Advance rentals and deferred charges amounting to ₱14.61 million and ₱219.24 million were transferred from non-current assets to right-of-use assets in 2020 and 2019, respectively in accordance with the PFRS 16.
 - h) Long-outstanding advances to suppliers were written off in 2019 and 2018 amounting to ₱0.96 million and ₱5.45 million, respectively.

Changes in liabilities for which cash flows have been classified as financing activities in the statement of cash flows follows:

Lease liabilities

For the years ended December 31, 2020 and 2019:

	2020	2019
Beginning of year	₱7,819,087,830	₱8,044,061,918
Cash flows	(1,001,989,894)	(1,300,319,804)
Noncash flow activities	(795,147,665)	1,075,345,716
End of year	₱6,021,950,271	₱7,819,087,830

For the year ended December 31, 2018:

	Finance leases due within 1 year	Finance leases due after 1 year
Net debt as at December 31, 2017	₱28,661,059	₱50,609,267
Cash flows	(13,876,862)	-
Reclassification from non-current to current	21,960,523	(21,960,523)
Net debt as at December 31, 2018	₱36,744,720	₱28,648,744

Loans payable

In 2020, the Company availed short-term loans payable amounting to ₱1,500.00 million, which is outstanding as of December 31, 2020 (nil in 2019 and 2018) (see Note 13).

Cash dividends

The Company has a remaining unpaid cash dividend amounting to ₱8,500 and ₱108 out of the ₱205.76 million declared in 2020 and 2019, respectively (nil in 2018).



29. Events After the Reporting Period

On January 22, 2021, the Board of Directors (BOD) approved the Share Buy-Back Program of the Company to enhance and establish an Executive Stock Option Plan. Amount set aside to fund the Share Buy-Back Program amounted to ₱300.0 million, will be taken from the Company's existing cash (without using the IPO proceeds). This is also supported by the unrestricted retained earnings. The Share Buy-Back Program will not involve any active and widespread solicitation from the stockholders and will be implemented in the open market through the trading facilities of the PSE. On January 25, 2021, the Company repurchased 12,000,000 shares for a total amount of ₱18.18 million.

30. Other Matters

a. Corporate Recovery and Tax Incentive for Enterprise (CREATE) Act

In February 2021, the Bicameral Conference Committee of both the Senate and the Congress have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act", which seeks to reduce the corporate income tax rate and rationalize the current fiscal incentives by making them time-bound, targeted and performance-based. Once the approved bill is submitted to the Office of the President for approval, the President can either approve or veto the fully enrolled bill; or approve or veto only certain provisions of the bill. If the bill is approved or the 30-day time period for the Office of the President to veto the bill has lapsed, the bill will then be enacted as a law.

The key changes of the submitted CREATE bill for approval are as follows:

- Effective July 1, 2020, RCIT rate is decreased from 30% to 20% for corporations with total assets of 100.0 million or below and taxable income of 5.0 million and below. All other corporations not meeting the criteria will be subject to lowered RCIT rate of 25% from 30%;
- Effective July 1, 2020 and for a period of 3 years, MCIT rate will lowered from 2% to 1% of gross income; and
- Improperly accumulated earnings tax of 10% will be repealed.

The RCIT and MCIT applied in the preparation of the Company's financial statements as at and for the year December 31, 2020 are based on the substantially enacted tax rates existing as of the balance sheet date which are 30% RCIT and 2% MCIT. Should the CREATE bill be subsequently enacted as a law prior to the filing deadline of the 2020 annual income tax return on April 15, 2021 and the retrospective effectivity beginning July 1, 2020 for both RCIT and MCIT are carried in the enacted bill, the excess accrued RCIT and MCIT as of the balance sheet date will be considered as reversal of accrual in 2021.

- ### b. The declaration of COVID-19 by the World Health Organization (WHO) as a pandemic and declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country starting March 16, 2020 have caused disruptions to the Company's business activities. While there are recent signs of increased market activity with the easing of quarantine measures in key areas in the Philippines, management believes that the impact of COVID-19 situation remains fluid and evolving and the pace of recovery remains uncertain.



As of reporting date, all stores of the Company have reopened while following the safety protocols mandated by the national government. Stores are operating at adjusted operating hours but are faced with customer traffic constraint since community quarantine is still in effect.

31. Supplementary Information Required Under BSP Circular No. 1075

Presented below are the supplementary information required by the BSP under Section 4172N of the BSP Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to be disclosed as part of the notes to financial statements based on BSP Circular 1075, Amendments to Regulations on Financial Audit of Non-Bank Financial Institutions (BSFIs).

Money Changing/Foreign Exchange Transactions

	2020			2019		
	No. of Transactions	Amount in USD	Amount in PHP	No. of Transactions	Amount in USD	Amount in PHP
Foreign currencies bought	59,843	44,854,454	1,458,270,553	59,843	94,181,368	2,446,778,995
Foreign currencies sold	1,045	372,685	18,577,779	1,045	1,043,910	53,898,806

Quantitative Indicators of Financial Performance

	2020	2019
Return on average equity	-5.06%	8.65%
$\frac{\text{Net income (loss)}}{\text{Average total equity}}$		
Return on average assets	-2.01%	4.17%
$\frac{\text{Net income (loss)}}{\text{Average total assets}}$		

32. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2020:

Value added tax (VAT)

The National Internal Revenue Code (NIRC) of 1997, as amended, also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT.



The Company has zero-rated and exempt sales pursuant to Section 106(A)(2)(a)(5) of the Tax Code and Sections 109(A), 109(K) and 109 of the Tax Code, respectively.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

- a. Net sales/receipts and Output VAT declared in the Company's VAT returns filed for 2020 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱27,244,796,528	₱3,269,375,583
Zero-rated sales	286,935,185	-
VAT-exempt sales	4,233,612,566	-
Total Sales	₱31,765,344,279	₱3,269,375,583

- b. The amount of input VAT claimed are broken down as follows:

Input tax on purchases of goods exceeding P1 million deferred from prior period	₱213,772,495
Current year's domestic purchases of goods	3,322,707,162
Current year's capital goods purchases	50,748,594
Current year's services rendered by nonresidents	885,081
Total available input VAT	3,588,113,332
Less: deductions from input VAT	
Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	187,241,673
Input tax allocable to exempt sales	37,402,528
Input tax on sales to government closed to expense	7,439,743
Total allowable input tax	3,356,029,388
Less: Input VAT applied to Output VAT	3,269,375,583
Add: VAT withheld on sales to government	9,509,989
Balance at December 31, 2020	₱96,163,794

Taxes and Licenses

The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2020.

Business tax	₱283,016,793
Real property tax	71,796,985
Documentary stamp tax	6,654,616
Motor vehicle tax	829,363
Others	87,732,115
Total	₱450,029,872



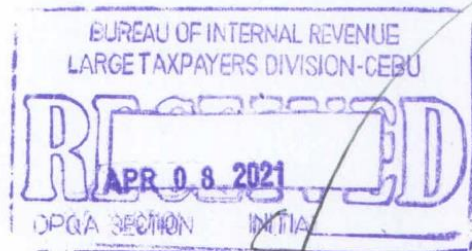
Withholding taxes

The amount of withholding taxes paid and accrued in 2020 consists of the following:

Expanded withholding taxes	₱412,111,309
Tax on compensation and benefits	85,260,255
Final withholding taxes	7,901,554
<u>Total</u>	<u>₱505,273,118</u>

Tax Assessment and Cases

The Company has no outstanding Final Assessment Notice and/or Formal Letter of Demand from the Bureau of Internal Revenue (BIR) for alleged deficiency income tax, VAT and withholding tax.



**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area, Mandaue City, Cebu

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 24, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

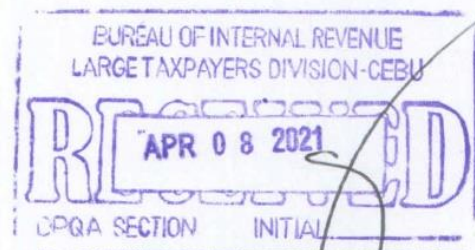
Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534336, January 4, 2021, Makati City

March 24, 2021





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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area, Mandaue City, Cebu

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 24, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner

CPA Certificate No. 112004

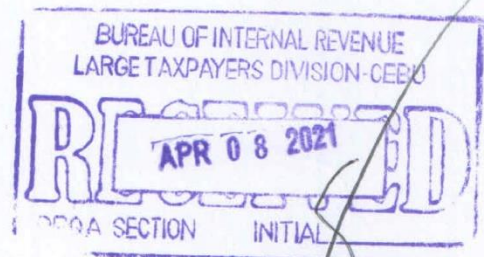
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022

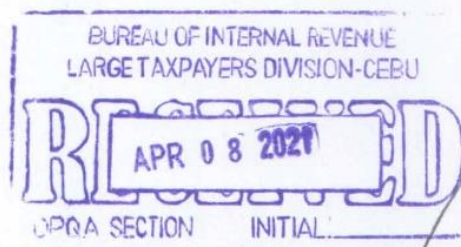
PTR No. 8534336, January 4, 2021, Makati City

March 24, 2021



INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Long-Term Debt
E	Indebtedness to Related Parties
F	Guarantees of Securities of Other Issuers
G	Capital Stock
H	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
I	Reconciliation of Retained Earnings Available for Dividend Declaration



METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS****DECEMBER 31, 2020**

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash and cash equivalents			
Wealth Development Bank	₱535,386,388	₱535,386,388	
Philippine National Bank	479,992,731	479,992,731	
Metropolitan Bank and Trust Company	259,272,766	259,272,766	
Bank of the Philippine Islands	241,598,314	241,598,314	
Land Bank of the Philippines	184,260,178	184,260,178	
Others	395,454,802	395,454,802	
	<u>2,095,965,179</u>	<u>2,095,965,179</u>	<u>₱14,676,195</u>
Short-term investments			
Development Bank of the Philippines	500,000,000	500,000,000	
Land Bank of the Philippines	400,000,000	400,000,000	
Wealth Development Bank	370,644,434	370,644,434	
	<u>1,270,644,434</u>	<u>1,270,644,434</u>	<u>28,339,654</u>
Receivables			
Third parties	591,889,200	591,889,200	
Related parties	42,781,017	42,781,017	
Rentals	30,863,966	30,863,966	
Others	38,188,828	38,188,828	
	<u>703,723,011</u>	<u>703,723,011</u>	<u>-</u>
	<u>₱4,070,332,624</u>	<u>₱4,070,332,624</u>	<u>₱43,015,849</u>

METRO RETAIL STORES GROUP, INC.

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2020**

	Receivable Balance	Payable Balance	Current Portion
Total Eliminated Receivables/Payables	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT****DECEMBER 31, 2020**

Long-term Debt			
Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
N/A	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM
LOANS FROM RELATED COMPANIES)****DECEMBER 31, 2020****Indebtedness to related parties (Long-term loans from Related Companies)**

Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2020**

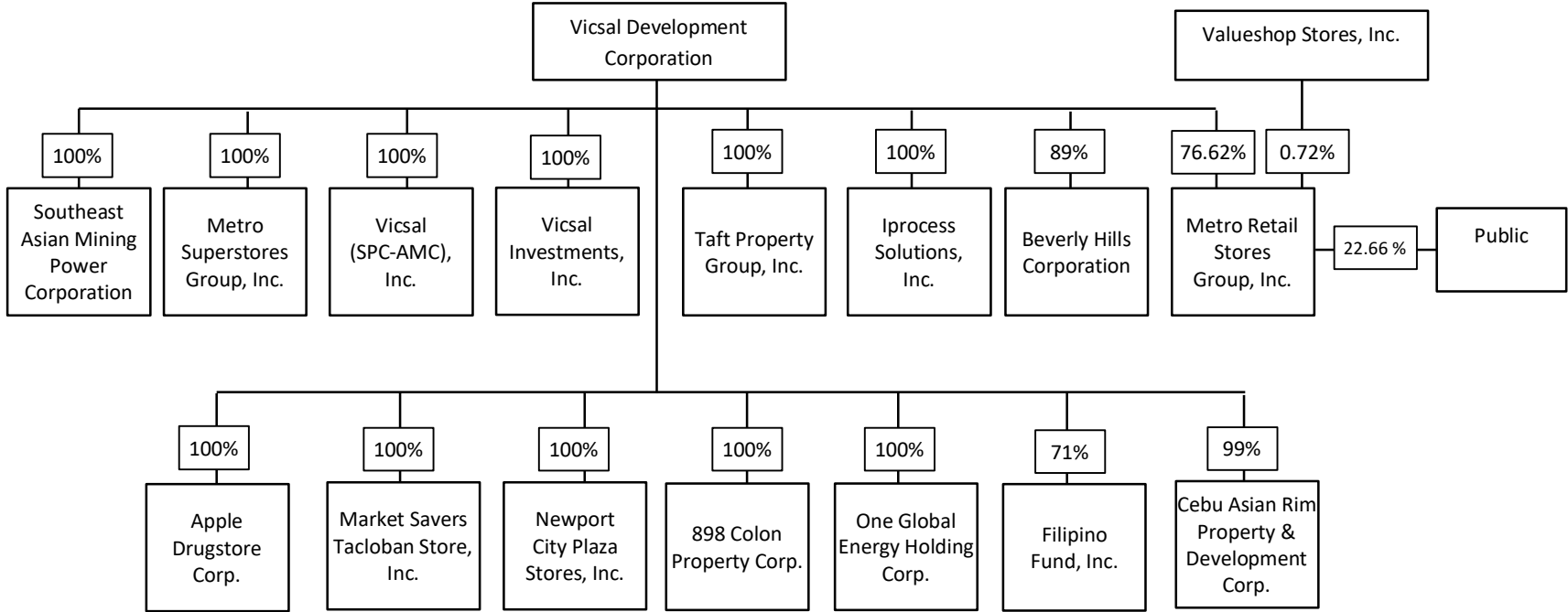
Guarantees of Securities of Other Issuers				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK****DECEMBER 31, 2020**

Capital Stock						
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	10,000,000,000	3,429,375,000	103,320,000	2,652,228,789	38,357,011	-
Preferred Shares	-	-	-	-	-	-
	10,000,000,000	3,429,375,000	103,320,000	2,652,228,789	38,357,011	-

METRO RETAIL STORES GROUP, INC.

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
DECEMBER 31, 2020**



METRO RETAIL STORES GROUP, INC.

**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION
DECEMBER 31, 2020**

Unappropriated Retained Earnings, beginning	₱3,345,357,261
Less: Deferred tax assets that reduced the amount of income tax expense	311,765,904
Unappropriated Retained Earnings as adjusted, beginning	3,033,591,357
Net (loss) income during the period closed to Retained Earnings	(449,591,591)
Less: Non-actual/unrealized income net of tax	
Amount of provisions for deferred tax during the year that reduced the amount of tax expense	239,813,226
Net (loss) income Actual/Realized	(689,404,817)
Less: Dividend declarations during the period	205,762,500
Unappropriated Retained Earnings, as adjusted, ending	₱2,138,424,040

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2020**

Ratio	Formula	2020	2019
Current Ratio	Total current assets divided by total current liabilities Total current assets ₱9,722,526,180 Total current liabilities 6,726,007,555 <hr/> Current ratio 1.45	1.45	1.47
Acid test ratio	Quick assets (total current assets less merchandise inventories and other current assets) divided by total current liabilities Total current assets ₱9,722,526,180 Merchandise inventories 4,981,620,260 Other current assets 540,865,116 <hr/> Quick assets 4,200,040,804 Total current liabilities 6,726,007,555 <hr/> Acid test ratio 0.62	0.62	0.70
Debt-to-equity ratio	Total net debt (debt less cash and cash equivalents) divided by total equity Debt ₱1,500,000,000 Cash and cash equivalents 2,257,268,691 <hr/> Net debt (757,268,691) Total equity 8,536,334,938 <hr/> Debt-to-equity ratio (0.09)	(0.09)	(0.31)
Asset-to-equity ratio	Total assets divided by total equity Total assets ₱21,373,961,314 Total equity 8,536,334,938 <hr/> Asset-to-equity ratio 2.50	2.50	2.53

METRO RETAIL STORES GROUP, INC.
**SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2020**

Ratio	Formula	2020	2019																				
Interest rate coverage ratio	EBITDA divided by finance cost <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income (Loss)</td> <td style="text-align: right;">(₱449,591,591)</td> </tr> <tr> <td>Benefit from income tax</td> <td style="text-align: right;">(95,927,038)</td> </tr> <tr> <td>Interest and other financing charges</td> <td style="text-align: right;">512,183,440</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">(33,335,189)</td> </tr> <tr> <td>Interest Income</td> <td style="text-align: right;">50,751,483</td> </tr> <tr> <td>EBIT</td> <td style="text-align: right;">(84,086,672)</td> </tr> <tr> <td>Depreciation and amortization</td> <td style="text-align: right;">1,356,734,710</td> </tr> <tr> <td>EBITDA</td> <td style="text-align: right;">1,272,648,037</td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;">512,183,440</td> </tr> <tr> <td>Interest rate coverage ratio</td> <td style="text-align: right;">2.48</td> </tr> </table>	Net income (Loss)	(₱449,591,591)	Benefit from income tax	(95,927,038)	Interest and other financing charges	512,183,440		(33,335,189)	Interest Income	50,751,483	EBIT	(84,086,672)	Depreciation and amortization	1,356,734,710	EBITDA	1,272,648,037	Finance costs	512,183,440	Interest rate coverage ratio	2.48	2.48	5.58
Net income (Loss)	(₱449,591,591)																						
Benefit from income tax	(95,927,038)																						
Interest and other financing charges	512,183,440																						
	(33,335,189)																						
Interest Income	50,751,483																						
EBIT	(84,086,672)																						
Depreciation and amortization	1,356,734,710																						
EBITDA	1,272,648,037																						
Finance costs	512,183,440																						
Interest rate coverage ratio	2.48																						
Return on equity	Net income divided by average total equity <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income (loss)</td> <td style="text-align: right;">(₱449,591,591)</td> </tr> <tr> <td>Total equity CY</td> <td style="text-align: right;">8,536,334,938</td> </tr> <tr> <td>Total equity PY</td> <td style="text-align: right;">9,235,964,469</td> </tr> <tr> <td>Average total equity</td> <td style="text-align: right;">8,886,149,704</td> </tr> <tr> <td>Return on equity</td> <td style="text-align: right;">-5.06%</td> </tr> </table>	Net income (loss)	(₱449,591,591)	Total equity CY	8,536,334,938	Total equity PY	9,235,964,469	Average total equity	8,886,149,704	Return on equity	-5.06%	-5.06%	8.65%										
Net income (loss)	(₱449,591,591)																						
Total equity CY	8,536,334,938																						
Total equity PY	9,235,964,469																						
Average total equity	8,886,149,704																						
Return on equity	-5.06%																						
Return on assets	Net income divided by average total assets <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income (loss)</td> <td style="text-align: right;">(₱449,591,591)</td> </tr> <tr> <td>Total assets CY</td> <td style="text-align: right;">21,373,961,314</td> </tr> <tr> <td>Total assets PY</td> <td style="text-align: right;">23,364,617,831</td> </tr> <tr> <td>Average total assets</td> <td style="text-align: right;">22,369,289,572</td> </tr> <tr> <td>Return on assets</td> <td style="text-align: right;">-2.01%</td> </tr> </table>	Net income (loss)	(₱449,591,591)	Total assets CY	21,373,961,314	Total assets PY	23,364,617,831	Average total assets	22,369,289,572	Return on assets	-2.01%	-2.01%	4.17%										
Net income (loss)	(₱449,591,591)																						
Total assets CY	21,373,961,314																						
Total assets PY	23,364,617,831																						
Average total assets	22,369,289,572																						
Return on assets	-2.01%																						
Net profit margin	Net income divided by revenue <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income (loss)</td> <td style="text-align: right;">(₱449,591,591)</td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">31,286,312,987</td> </tr> <tr> <td>Net profit margin</td> <td style="text-align: right;">-1.44%</td> </tr> </table>	Net income (loss)	(₱449,591,591)	Revenue	31,286,312,987	Net profit margin	-1.44%	-1.44%	2.11%														
Net income (loss)	(₱449,591,591)																						
Revenue	31,286,312,987																						
Net profit margin	-1.44%																						

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

. S E N O A N D W . O . S E N O S T R E E T S ,

G U I Z O , N O R T H R E C L A M A T I O N A R E A ,

M A N D A U E C I T Y , C E B U

Form Type

1 7 - C

Department requiring the report

M S R D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

corporateaffairs@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

Atty. Vincent E. Tomaneng

Email Address

vince.tomaneng@metroretail.com.ph

Telephone Number/s

(032) 236-8390

Mobile Number

N/A

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.

METRO RETAIL STORES GROUP, INC.
THIRD AMENDED
MANUAL ON CORPORATE GOVERNANCE
To Comply with SEC Memorandum Circular No. 24, Series of 2019

The Board of Directors (the “Board”) of **Metro Retail Stores Group, Inc.** (the “Corporation”), working closely with the Corporation's Officers and Managers, hereby commit themselves to the principles and best practices contained in this Manual on Corporate Governance (the “Manual”), and acknowledge that the same will guide and contribute to the attainment of the Corporation’s goals and aspirations.

I
OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance (i.e., fairness, accountability, and transparency) in the entire organization. The Board believes that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

II
DEFINITION OF TERMS

Corporate Governance – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal, and social obligations toward their **shareholders and** stakeholders.

Corporate governance is a system of direction, feedback, and control using regulations, performance standards, and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior and reconciling long-term customer satisfaction with shareholder value to the benefit of all stakeholders and society.

Its purpose is to maximize the organization’s long-term success, creating sustainable value for its shareholders, stakeholders, and the nation;

Board/Board of Directors – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;

Exchange – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/ or commodities;

Management – group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;

Independent Director – 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;

Executive Director – a director who has executive responsibility of day-to-day operations of a part or the whole of the corporation;

Non-executive Director –a director who has no executive responsibility and does not perform any work related to the day-to-day operations of the corporation;

Non-audit Work – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;

Internal Control – the process designed and effected by the Board of Directors and Management, to provide reasonable assurance on the achievement of the Corporation’s objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations and the Corporation’s policies and procedures;

Internal Control System – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Corporation is exposed;

Internal Audit – an independent and objective assurance activity designed to add value to and improve the Corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;

Internal Audit Department – a department or unit of the Corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the Corporation’s operations;

Internal Auditor – the highest position in the Corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results;

Enterprise Risk Management - a process, effected by an entity’s Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of the Corporations objectives.

Public Company - a company with assets of at least Fifty Million Pesos (Php50,000,000.00) and having two hundred (200) or more shareholders holding at least one hundred (100) shares each of equity securities;

Registered Issuer - a company that: (1) issues proprietary and/or non-proprietary shares/certificates; (2) issues equity securities to the public that are not listed in an Ex-

change; or (3) issues debt securities to the public that are required to be registered to the SEC, whether or not listed in an Exchange;

Related parties - covers the covered entity's directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, and other persons if these persons have control, joint control or significant influence over the covered entity. It also covers the covered entity's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party;

Related Party Transactions – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

Stakeholders – any individual, **organization** or society at large who can either affect and/or be affected by the Corporation's strategies, policies, business decisions, and operations, in general. This includes, among others, **non-proprietary certificate holders**, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

SEC or Commission – refers to the Securities and Exchange Commission

Substantial Stockholder/Shareholder – means direct or indirect ownership of more than 10% of the outstanding capital stock of a corporate entity.

III INTERPRETATION

All references to the masculine gender in the salient provisions of this Manual shall likewise cover the feminine gender.

All doubts or questions in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability and fairness to the **shareholders** and **stakeholders** of the Corporation.

IV BOARD OF DIRECTORS

A. COMPOSITION OF THE BOARD

- 1) The Corporation should be headed by a competent and working Board to foster the long-term success of the Corporation, and to sustain its competitiveness, **growth** and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and stakeholders.

- 2) In the election of the members of its Board of Directors, the Corporation should be guided by the following standards:
 - a) The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the Corporation's industry. The Board should always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.
 - b) The Board should be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.
 - c) First time directors are required to attend an orientation program to be provided by a training provider duly accredited by the Commission and all directors are required to attend an annual continuing training to be provided by such accredited training provider. The courses for the orientation program and continuing training shall comply with the applicable SEC rules and regulations.
 - d) Board diversity shall be a consideration in the nomination and election of the members of the Corporation's Board of Directors.
- 3) The Board shall be headed by a competent and qualified Chairperson.

B. GENERAL RESPONSIBILITIES

The Board is primarily responsible for the governance of the Corporation. Thus, compliance with the principles of good corporate governance and this Manual shall start with the Board.

It shall be the Board's responsibility to foster the long-term success of the Corporation and to secure its sustained competitiveness in a manner consistent with its fiduciary responsibility and corporate objectives, which it shall exercise in the best interest of the Corporation, its shareholders and stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities. The Board shall formulate the Corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to independently and effectively monitor and check Management's performance.

C. DUTIES AND FUNCTIONS

To insure a high standard of best practices for the Corporation, its **shareholders** and stakeholders, the Board, in close coordination with the Corporation's Officers and Managers, shall conduct itself with honesty and integrity in the performance of, among others, the following duties and functions:

- 1) Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.

Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for directors and Management to ensure growth and a continued increase in the shareholders' value. The succession plan shall include, as far as practicable, a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Corporation.

- 2) Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Approve and oversee the development of the Corporation's business objectives, strategies, and programs in order to sustain the Corporation's long-term viability and strength.

Periodically evaluate and monitor the implementation of such policies, strategies, and programs, including the business plans, operating budgets and Management's overall performance.

- 3) Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.
- 4) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Corporation. For this purpose, the Corporation's Chief Financial Officer shall exercise oversight responsibility over this program.
- 5) Identify the Corporation's stakeholders and the sectors in the community in which the Corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- 6) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- 7) Approve the selection and assess the performance of Management led by the Key Officers.

The Board shall establish an effective performance management framework that will ensure that the Management, and the personnel's performance are at par with the standards set by the Board and Senior Management.

- 8) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability.

- 9) Formulate and implement policies and procedures that would ensure the integrity and transparency of Related Party Transactions and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality.
- 10) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- 11) Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its shareholders, and the Corporation and third parties, including the regulatory authorities.
- 12) Meet at such times or frequency as may be needed. The minutes of such meetings shall be duly recorded.

Independent views during Board meetings should be encouraged and given due consideration.

- 13) Keep the activities and decisions of the Board within its authority under the Articles of Incorporation and By-Laws, and in accordance with existing laws, rules and regulations.
- 14) Appoint a Compliance Officer. The Compliance Officer need not have the rank of Senior Vice-President or an equivalent position, but he/she must be able to faithfully comply with his/her duties and responsibilities.
- 15) Implement a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess, and manage key business risks. In this connection, the Board shall be responsible for defining the Corporation's level of risk tolerance and provide oversight over its risk management policies and procedures.
- 16) Approve and implement a Board Charter that formalizes and clearly states its roles, responsibilities, and accountabilities in carrying out its fiduciary duties. The Board Charter should serve as a guide to the directors in the performance of their functions and should be publicly available and posted on the Corporation's website.
- 17) Approve and implement a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behaviour, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code should include an anti-corruption policy and program. The Code should be properly disseminated to the Board, Management and employees. It should also be disclosed and made available to the public through the Corporation's website.

The Board should ensure the proper and efficient implementation and monitoring of compliance with the Code and other internal policies.

- 18) The Board should establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and stakeholders, that gives a fair and complete picture of the **Corporation's** financial condition, results and business operations.

The disclosure policy shall include disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance issues of its business, which underpin sustainability. The Corporation shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

- 19) The Board should approve and implement a policy on alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.
- 20) The Board should establish a whistle blowing policy that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.
- 21) As far as practicable, the non-executive directors should have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the Corporation. The meetings should be chaired by the lead independent director.

D. SPECIFIC DUTIES AND REPONSIBILITIES OF A DIRECTOR

A director's office is one of trust and confidence. A director should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Corporation towards sustained progress.

A director shall have the following duties and responsibilities:

- 1) Conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Corporation, or stands to acquire or gain financial advantage at the expense of the Corporation.

A director who has a continuing material conflict of interest should seriously consider resigning from his position.

- 2) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director should devote sufficient time to familiarize himself with the Corporation's business. He should be constantly aware of and knowledgeable with the Corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

- 3) Act judiciously, on a fully informed basis, in good faith, and with due diligence and care, and in the best interest of the Corporation and all shareholders.

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification. In all its decisions regarding the Corporation, the Board shall always keep in mind its duty of care and loyalty to Corporation, which requires that the Board Members should act in the interest of the Corporation and its shareholders, and not those of the controlling company, or any stakeholder.

- 4) Exercise independent judgment.

A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. Corollarily, he should support plans and ideas that he thinks are beneficial to the Corporation.

- 5) Have a working knowledge of the statutory and regulatory requirements that affect the Corporation, including its Articles of Incorporation and By-Laws, the rules and regulations of the SEC and, where applicable, the requirements of relevant regulatory agencies.

A director should also keep abreast with industry developments and business trends in order to promote the Corporation's competitiveness.

- 6) Observe confidentiality.

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

E. INTERNAL CONTROL RESPONSIBILITIES OF THE BOARD

The Board shall oversee that an appropriate internal control system in in place,

including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, the Board members, and shareholders.

The control environment of the Corporation shall consist of the following:

- 1) The Board which ensures that the Corporation is properly and effectively managed and supervised.
- 2) A Management that actively manages and operates the Corporation in a sound and prudent manner.
- 3) The organizational and procedural controls which are duly supported by effective management information and risk management reporting systems.
- 4) An independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

The minimum internal control mechanisms for the performance of the Board's oversight responsibility shall include:

- 1) Definition of the duties and responsibilities of the Chairman/Chief Executive Officer ("CEO") and President/Chief Operating Officer ("COO") who are ultimately accountable for the Corporation's organizational and operational controls.
- 2) Selection of the persons who possess the ability, integrity and expertise essential for the positions of Chairman/CEO and President/COO.
- 3) Evaluation of proposed senior management appointments.
- 4) Selection and appointment of qualified and competent management officers.
- 5) Review of the Corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- 6) Approval the Corporation's Internal Audit Charter.

F. QUALIFICATIONS OF BOARD OF DIRECTORS

The Board shall have seven (7) members composed of five (5) regular directors and two (2) independent directors. A majority of the Board shall be composed of non-executive directors.

GENERAL

1) Qualifications

A director shall have the following qualifications:

- a) He must be a holder of at least one (1) share of stock of the Corporation registered under his name;
- b) He must be a college graduate or holds an equivalent academic degree;
- c) He must have been engaged in or exposed to the business of the Corporation for at least five (5) years;
- d) He must be diligent, hardworking, and a person of proven integrity/probity.

2) Disqualifications

No person shall be qualified or be eligible for nomination or election to the Board if:

- a) He is engaged in any business or activity which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged in any business or activity which competes with or is antagonistic to that of the Corporation –
 - i. If he is a director, officer, manager or controlling person of, or the owner (either of record or beneficially) of 2% or more of any outstanding class of shares of, any corporation (other than one in which the Corporation owns at least 30% of the capital stock) engaged in a business or activity which the Board, by at least a majority vote, determines to be competitive or antagonistic to that of the Corporation; or
 - ii. If he is a director, officer, manager or controlling person of, or the owner (either of record or beneficially) of 2% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business or activity of the Corporation, when in the judgment of the Board, by at least a majority vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or
 - iii. If the Board, in the exercise of its judgment in good faith, **determined** by at least a majority vote that he is the nominee of any person set forth in (i) and (ii) directly above.

In determining whether, or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relationships.

- b) He has any of the disqualifications provided under relevant laws including but not limited to the **Code of Corporate Governance for Public Companies and Registered Users** of the SEC, or any amendments thereto, such as:
- i. Permanent Disqualification
- (a) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (i) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (ii) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (iii) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- (b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission, **the Bangko Sentral ng Pilipinas ("BSP")** or any court or administrative body of competent jurisdiction from: (i) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (ii) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company **or as an affiliate person of any of them**; (iii) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (i) and (ii) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the Commission, **BSP**, or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission, the BSP, or under any rule or regulation issued by the BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- (c) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
 - (d) Any person who has been adjudged by final judgment or order of the Commission, **BSP**, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the **Revised Corporation Code**, Securities Regulation Code or any other law, **rules, regulations or order** administered by the Commission or BSP;
 - (e) Any person judicially declared as insolvent;
 - (f) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority **for** acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (a) to **(e)** above;
 - (g) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the **Revised Corporation Code and Securities Regulation Code** committed within five (5) years prior to the date of his election or appointment;
 - (h) Other grounds as the SEC may provide **pursuant to the provisions of the Revised Corporation Code, Securities Regulation Code, and other related laws.**
- ii. Temporary Disqualification
- (a) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.
 - (b) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.

- (c) Dismissal, termination or **removal** for cause as director of any **publicly-listed company; public company, registered issuer of securities and holder of a secondary license from the SEC.** The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal, termination **or removal.**
- (d) **Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;**
- (e) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

INDEPENDENT DIRECTORS

At least two (2) of the seven (7) directors shall be independent directors. The Independent Directors shall be nominated by the Nomination and Compensation Committee. Independent Directors should possess all of the qualifications and none of the disqualifications specified below:

1) Qualifications

An independent director is a person who:

- a) Is not a director, senior officer, employee, or substantial **shareholder** of the Corporation 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 Corporation, 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 Corporation, any of its related companies or any of its substantial shareholders;
- d) Has not been employed in any executive capacity by the Corporation,

any of its related companies or any of its substantial shareholders within the last three (3) years;

- e) Has not been appointed in the Corporation, its subsidiaries, associates, affiliates, or related companies as Chairman “Emeritus”, “Ex-Officio” Directors/Officers or members of any advisory board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (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 Corporation, 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 Corporation 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 director 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 (except an independent director who will not be disqualified to become an independent director of the Corporation), officer, principal **shareholder**, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer. (As amended on November 12, 2019)
 - i) Is not affiliated with any non-profit organization that receives significant funding from the Corporation or any of its related companies or substantial shareholders.
 - j) Is not employed as an executive officer of another company where any of the Corporation’s executives serves as directors.
 - k) **Is not an owner of more than two percent (2%) of the outstanding shares of the covered company, its subsidiaries, associates, affiliates or related companies.**
- 2) Additional Grounds for Disqualification of an Independent Director

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

3) Election of Independent Directors

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 Corporation. 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.

4) Term and Cessation of Independent Directorship

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 Corporation, but may continue to qualify for nomination and election as non-independent director. In the instance that the Corporation intends to retain an independent director who has served for nine (9) years, as a non-independent director, the Board shall provide meritorious justifications/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 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 **shareholders** 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.

G. BOARD MEETINGS AND QUORUM REQUIREMENT

The members of the Board should attend and actively participate in the regular and special meetings of the Board in person or through videoconferencing and teleconferencing conducted in accordance with the rules and regulations of the SEC and the By-laws.

Independent directors should always attend Board meetings. To promote transparency, the presence of at least one independent director shall be required in all its meetings.

H. BOARD SEATS

The non-executive directors of the Board should not concurrently serve as directors to more than ten (10) public companies and/or registered issuers. However, the maximum concurrent directorships shall be five (5) public companies and/or registered issuers if the director also sits in at least three (3) publicly-listed companies.

A director should notify the Board where he is an incumbent director before accepting a directorship in another company.

I. REMUNERATION OF DIRECTORS AND OFFICERS

The levels of remuneration of the Corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance.

The Corporation shall establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers, which shall be prepared by the Nomination and Compensation Committee. No director should participate in deciding on his remuneration.

J. ASSESSMENT OF BOARD PERFORMANCE

- 1) The Board should conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. **The assessment may be supported by an external facilitator.**
- 2) Upon recommendation of the **Corporate** Governance Committee, the Board shall prescribe the criteria and process to determine the performance of the Board, the individual directors, committees, and provide for a feedback mechanism from the shareholders.

V BOARD COMMITTEES

The Board shall constitute the following committees, to focus on specific board functions and to aid in the optimal performance of its roles and responsibilities:

A. AUDIT AND RISK COMMITTEE

- 1) The Audit and Risk Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting and monitoring compliance with laws, regulations, and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.
- 2) The Audit and Risk Committee shall be responsible for the oversight of the Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness.
- 3) The Audit and Risk Committee shall consist of three (3) non-executive directors, who shall preferably have accounting and finance backgrounds, majority of whom shall be independent directors. The chair of the Audit and Risk Committee should be an independent director, **and should not be the Chairperson of the Board or any other committees.** At least one member of the committee must have relevant thorough knowledge and experience on risk management.
- 4) The committee shall have the following functions:
 - (a) Audit Functions
 - a. Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.
 - b. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities.
 - c. Perform oversight functions over the Corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
 - d. Recommends the approval and oversees the implementation of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit, and reviews and approves the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources and budget necessary to implement it.
 - e. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if

more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

- f. Organize and oversee the Internal Audit Department, and recommends the appointment and/or grounds for approval of an Internal Audit Head, as well as approve the terms and conditions for internal audit services, if necessary.
- g. Through the Internal Audit Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security, as well as the integrity of financial reporting, and security of physical and information assets.
- h. Review the reports submitted by the Internal Auditor and monitors Management's responsiveness to the Internal Auditor's findings and recommendations.
- i. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit and Risk Committee. The Audit and Risk Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.
- j. Reviews and approves the interim and annual financial statements before their submission to the Board, with particular focus on the following matters:
 - Any change/s in accounting policies and practices
 - Areas where a significant amount of judgment has been exercised
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements.
- k. Reviews the recommendations in the external auditor's management letter;
- l. Coordinate, monitor and facilitate compliance with laws, rules and regulations.
- m. Recommends to the Board the appointment, reappointment, removal and fees of the external auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the **shareholders**. For this purposes, the Audit and Risk Committee should establish the procedure for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal and fees of the external auditor should be recommended by the Audit and Risk Committee, approved by the Board, and ratified by the shareholders.
- n. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the

Corporation's overall consultancy expenses. The **Audit and Risk** Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Corporation's Annual Report **and Corporate Governance Report**.

- o. As far as practicable, the Audit and Risk Committee shall endeavour to meet with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.

(b) Risk Oversight Functions

- a. Assess the probability of each risk becoming a reality and shall estimate its possible effect and cost.
- b. Define the strategies for managing and controlling the major risks. Identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real.
- c. Oversee the implementation of the risk management strategies and policies.
- d. Develop a formal enterprise risk management plan which contains the following elements: (i) common language or register of risks, (ii) well-defined risk management goals, objectives and oversight, (iii) uniform processes of assessing risks and developing strategies to manage prioritized risks, (iv) designing and implementing risk management strategies, and (v) continuing assessments to improve risk strategies, processes and measures.
- e. Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The Committee conducts regular discussion on the Corporation's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks.
- f. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant development that seriously impact the likelihood of harm or loss.
- g. Advise the Board on its risk appetite levels and risk tolerance limits.
- h. Review at least annually the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory

framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation.

- i. Assess the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stakeholders.
- j. Provides oversight over Management's activities in managing credit, market liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management.
- k. Report to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommend further actions or plans, as necessary.

(c) Related Party Transactions Functions

- a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all Related Parties are continuously identified, Related Party Transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, Related Party Transactions and changes in relationships should be reflected in the relevant reports to the Board and regulators;
- b. Evaluates all material Related Party Transactions to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating Related Party Transactions, the Committee takes into account, among others, the following:
 - i. The Related Party's relationship to the Corporation and interest in the transaction;
 - ii. The material facts of the proposed Related Party Transaction, including the proposed aggregate value of such transaction;
 - iii. The benefits to the Corporation of the proposed Related Party Transaction;
 - iv. The availability of other sources of comparable products or services; and

- v. An assessment of whether the proposed Related Party Transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Committee shall ensure that the Corporation has an effective price discovery system in place and exercise due diligence in determining a fair price for Related Party Transactions.
- c. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's Related Party Transactions exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties.
- d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties.
- e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process.
- f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting Related Party Transactions, including a periodic review of Related Party Transactions policies and procedures.

B. NOMINATION AND COMPENSATION COMMITTEE

- 1) The Board shall create a Nomination and Compensation Committee which shall have at least three (3) members and one (1) of whom must be an independent director, to review and evaluate the qualifications of all individuals nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.
- 2) At least, thirty calendar (30) days before the Annual Stockholders' Meeting, the Nomination and Compensation Committee shall accept, pre-screen, and shortlist all candidates nominated to become a member of the Board in accordance with the qualifications and disqualifications of a director. In the evaluation of the nominees, the Committee shall consider whether the candidates:
 - a) Possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Corporation's business and risk profile.
 - b) Have a record of integrity and good repute.

- c) Have sufficient time to carry out their responsibilities.
- d) Have the ability to promote a smooth interaction between board members.

The Nomination and Compensation Committee may engage the services of professional search firms or other external sources when searching for candidates to the Board.

- 3) The Nomination and Compensation Committee shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.
- 4) The Nomination and Compensation Committee shall recommend a succession plan for board members and senior officers and establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates, and which shall be commensurate to corporate and individual performance. The remuneration policy should be aligned with the long-term interest of the Corporation and should specify the relationship between remuneration and performance.
- 5) The Nomination and Compensation Committee shall develop and implement policies and procedures for setting Board and executive remuneration, as well as the level and mix of the same.
- 6) The Nomination and Compensation Committee shall advise the Board regarding policies concerning the organizational development and human capital of the Corporation. It shall also monitor the implementation of such policies in coordination with the Chairman/CEO, President/COO and Head of Human Resource.
- 7) The Nomination and Compensation Committee shall assist the Chairman/CEO and President/COO in the hiring, and annual performance appraisal, of the Head of Human Resource.

C. CORPORATE GOVERNANCE COMMITTEE

- 1) The Corporate Governance Committee is tasked with ensuring compliance with and proper observance of corporate governance principles and practices.
- 2) The Corporate Governance Committee shall consist of three (3) directors, **majority** of whom shall be an independent directors, **including the Chairperson.**
- 3) The Corporate Governance Committee shall have the following functions, among others that may be delegated by the Board:
 - a) Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in

light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments.

- b) Oversees the periodic performance evaluation of the Board and its committees as well as Management, and conducts an annual self-evaluation of its performance.
- c) Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement.
- d) Recommends continuing education and/or relevant training programs for directors.
- e) Develop, review and recommend to the Board a set of corporate governance policies and guidelines applicable to the Corporation, including the amendments or revisions to this Manual, and ensures that these are reviewed and updated regularly.
- f) Responsible for overseeing the Corporation's implementation and effectiveness of its corporate governance, including the annual accomplishment of the scorecard on the scope, nature and extent of the actions undertaken by the Corporation to meet the objectives of this Manual.
- g) To maintain an informed status on issues related to the Corporation's corporate social responsibility, public policy and philanthropy, and those affecting the name, reputation and goodwill of the Corporation.

D. INVESTMENT COMMITTEE

The Investment Committee shall consist of three (3) directors, one (1) of whom shall be an independent director. The Committee shall have the following functions, among others that may be delegated by the Board:

- 1) Establish, review and recommend to the Board the policies and strategies to be adopted by the Corporation regarding the investment activities and portfolios necessary to achieve its goals and objectives.
- 2) Evaluate and enhance the Corporation's investment processes.
- 3) Recommend the hiring and termination of investment managers.

VI

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

If the need arises, the roles of the Chairman and CEO may be separate in order to

foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chairman and CEO upon their election.

If the positions of Chairman and CEO are unified, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives.

The duties and responsibilities of the Chairman in relation to the Board shall include, among others, the following:

- a) Ensure that the meetings of the Board are held in accordance with the By-Laws of the Corporation. The Chairman shall foster an environment conducive for constructive debate and leveraging on the skills and expertise of the individual directors, during each meeting of the Board.
- b) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors.

In the preparation of the agenda, the Chairman must ensure that the Agenda focuses on strategic matters, including the overall risk appetite of the Corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations.

The Chairman shall ensure that the Board members receive accurate, timely, relevant, insightful, concise, and clear information regarding the agenda items to enable the Board to make sound decisions.

- c) Maintain qualitative and timely lines of communication and information between the Board and Management. The Chairman shall ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management.
- d) The Chairman shall make sure that the performance of the Board is evaluated at least once a year and discussed/followed up on.

The CEO has the following roles and responsibilities, among others:

- a) Be responsible for the general management, direction and control of the Corporation, in consultation with the Board, except for any matters requiring the approval of the stockholders and/or the Board in accordance with the Articles of Incorporation, By-Laws or relevant law;
- b) Submit reports on the operation of the Corporation to the Board of Directors and an annual report to the Stockholders at the annual meeting;
- c) Submit to the Board of Directors such statements, reports, memoranda and accounts as the latter may require, and prepare such statements and reports as may be required from time to time by law;

- d) Coordinate, direct and implement matters related to Government relations; shareholder relations; community relations; and must be consulted before the release of media disclosures;
- e) To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors, including those for executive training, development and compensation;
- f) Monitor the status of the projects, programs and plans of the Board of Directors as implemented by the President/COO;
- g) Receive feedback from the President/COO and all Department Heads on the status of projects, programs, and plans including execution of projects and general operations of company systems;
- h) Observe the preparation of the budgets, strategies, and the statements of accounts of the Corporation;
- i) Ensure that the strategic, administrative and operational policies of the Corporation are carried out under his supervision and control;
- j) See to it that the orders and resolutions of the Board of Directors are faithfully carried out;
- k) Sign and execute for and in behalf of the Corporation, contracts and agreements of which the Corporation is a party; and
- l) Exercise such other powers, and perform such other duties as the Board of Directors may, from time to time, fix or delegate.

If the positions of Chairman and CEO are not separate and matters for resolution of the Board involve the accountability of Management and there is a perceived conflict of interest in relation thereto, the Chairman shall appoint a lead director from among the independent directors to temporarily preside in the meeting to ensure the independence of the Board. The functions of the lead director shall include, among others, the following:

- a) Serves as an intermediary between the Chairman and the other directors when necessary.
- b) Convenes and chairs meeting of the non-executive directors.
- c) Contributes to the performance evaluation of the Chairman, as required.

VII THE PRESIDENT AND CHIEF OPERATING OFFICER

The President, who shall be the Chief Operating Officer (COO) of the Corporation, must be a member of the Board of Directors of the Corporation. The President/COO shall exercise the following functions:

- 1) Be Responsible for the administration and direction of the day-to-day ordinary business affairs of the Corporation;
- 2) Report directly to the Chairman/CEO in all matters regarding the day-to-day management and operations of the Corporation;

- 3) Have direct and active management of the business and operations of the Corporation, conducting the same according to the orders, resolutions and instructions of the Chairman/CEO and the Board of Directors and according to his own discretion whenever and wherever the same is not expressly limited by such orders, resolutions, and instructions, and exercise general supervision over all the other officers of the Corporation;
- 4) Sign the certificates of stock of the Corporation;
- 5) Spearheads the execution and implementation of the budgets and strategies of the Corporation;
- 6) Subject to the guidelines prescribed by laws and the Board of Directors, to appoint, and at his discretion remove/terminate or suspend, any or all of the agents, employees and other subordinate personnel of the Corporation, prescribe their duties and fix or change from time to time their respective salaries or wages, and require certain guarantees or bonds, in such amounts as he may determine, to secure the faithful discharge by certain employees or agents of their official trust and functions, and to exercise general superintendence/oversight and directions over all the agents, employees and other subordinate personnel of the Corporation, and see to it that their respective duties are properly performed;
- 7) To prepare such statements and reports of the Corporation as may be required of him by law;
- 8) Sign and execute for and in behalf of the Corporation, contracts and agreements of which the Corporation is a party subject to the approval limits as may be authorized by the Board of Directors or as may be delegated by the Chairman/CEO;
- 9) Prepare and submit to the Chairman/CEO such statements, reports, memoranda and accounts as the latter may require;
- 10) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors; and
- 11) The President/COO may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.

VIII

THE CORPORATE SECRETARY

- 1) The Board shall be assisted in its duties by a Corporate Secretary, who shall be a

separate individual from the Compliance Officer. The Corporate Secretary shall not be a member of the Board of Directors.

- 2) The Corporate Secretary shall attend the annual training provided by an SEC accredited training provider.
- 3) The Corporate Secretary, who shall be a Filipino citizen and a resident of the Philippines, is an officer of the Corporation. He shall –
 - a) Assist the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings.
 - b) Inform the members of the Board, in accordance with the By Laws, of the agenda of their meetings at least five (5) working days in advance and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval.
 - c) Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so.
 - d) Ensure that all Board procedures, rules and regulations are strictly followed by the members.
 - e) Advises on the establishment of board committees and their terms of reference.
 - f) Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Corporation.
 - g) Be loyal to the mission, vision and objectives of the Corporation.
 - h) Work fairly and objectively with the Board, Management, stockholders and stakeholders, and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders.
 - i) Have appropriate administrative and interpersonal skills.
 - j) Keep abreast on relevant laws, regulations, all government issuances, relevant industry developments and operations of the Corporation, and advises the Board and the Chairman on all relevant issues as they arise.
 - k) Have a working knowledge of the operations of the Corporation.

- l) Oversees the drafting and/or amendments to the Corporation's By-Laws and ensures that they conform with regulatory requirements.
- m) Performs such other duties and responsibilities as may be provided by the SEC or delegated by the Board.

IX THE COMPLIANCE OFFICER

- 1) To ensure adherence to corporate principles and best practices, the Board shall appoint a Compliance Officer, who shall be a member of the Corporation's management team in charge of the compliance function. The Compliance Officer shall report directly to the Chairman of the Board/Chief Executive Officer, however, the Compliance Officer is primarily liable to the Corporation and its shareholders.
- 2) He shall perform the following duties:
 - a) Ensure the proper orientation of new directors of the Corporation.
 - b) Monitors, reviews, evaluates and ensures compliance by the Corporation with this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.
 - c) Reports to the Board if violations are found and recommends the imposition of appropriate disciplinary action.
 - d) Ensure the integrity and accuracy of all documentary submissions to regulators.
 - e) Appear before the SEC when summoned in relation to compliance with the Code of Corporate Governance and **other relevant rules and regulations.**
 - f) Identify, monitor, and control compliance risks and work towards the resolution of the same.
 - g) Ensure the attendance of board members and key officers to relevant trainings.
 - h) Coordinate closely with the Corporation's Officers, Managers, and other departments to ensure their compliance with their avowed responsibilities to the shareholders and the general public.
 - i) Perform such other duties and responsibilities as may be delegated by the Board and/or provided by the SEC.

- j) **Collaborates with other departments within the Corporation to properly address compliance issues, which may be subject to investigation.**

X

INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK

- 1) The Corporation shall establish and implement an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile, and complexity of operations.
- 2) The Corporation shall establish an independent internal audit function that provides an independent and objective assurance and consulting services designed to add value and improve the Corporation's operations. The following are the functions of the internal audit, among others:
 - a) Provides an independent risk-based assurance to the Board, Audit and Risk Committee and Management, focusing on reviewing the effectiveness of the governance and control process in (i) promoting the right values and ethics, (ii) ensuring effective performance management and accounting in the organization, (iii) communicating risk and control information, and (iv) coordinating the activities and information among the Board, external and internal auditors, and Management.
 - b) Performs regular and special audit as contained in the annual audit plan and/or based on the Corporation's risk assessment.
 - c) Performs consulting and advisory services related to governance and controls as appropriate for the organization.
 - d) Performs compliance audit on relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization.
 - e) Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Corporation.
 - f) Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned.
 - g) Evaluates specific operations at the request of the Board or Management as appropriate.
 - h) Monitors and evaluates governance process.

- 3) The Corporation shall have a qualified Internal Audit Head appointed by the Board. The Internal Audit Head shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. The following are the responsibilities of the Internal Audit Head, among others:
 - a) Periodically reviews the internal audit charter and presents it to senior management and the Audit and Risk Committee for approval.
 - b) Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals.
 - c) Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit and Risk Committee for review and approval.
 - d) Spearheads the performance of the internal audit activity to ensure it adds value to the organization.
 - e) Reports periodically to the Audit and Risk Committee on the internal audit activity's performance relative to its plan.
 - f) Presents findings and recommendations to the Audit and Risk Committee and gives advice to senior management and the Board on how to improve internal processes.
- 4) The Corporation shall have a separate risk management function to identify, assess and monitor key risk exposures. The risk management function involves the following activities, among others:
 - a) Defining a risk management strategy.
 - b) Identifying and analyzing key risks exposure relating to economic, environmental, social and governance factors and achievement of the organization's strategic objectives.
 - c) Evaluating and categorizing each identified risk using the Corporation's predefined risk categories and parameters.
 - d) Establishing a risk register with clearly defined, prioritized and residual risks.
 - e) Developing a risk mitigation plan for the most important risks to the Corporation, as defined by the risk management strategy.
 - f) Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Audit and Risk Committee.

- g) Monitoring and evaluating the effectiveness of the organization's risk management processes.
- 5) In managing the Corporation's Risk Management System, the Corporation should have a Risk Management Officer (RMO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resource and support to fulfill his/her responsibilities, subject to the Corporation's size, risk profile and complexity of operations. There should be clear communication between the Audit and Risk Committee and the RMO. The RMO has the following functions, among others:
- a) Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation.
 - b) Communicates the top risks and the status of implementation of risk management strategies and action plans to the Audit and Risk Committee.
 - c) Collaborates with the **Chairman**/CEO and President/COO in updating and making recommendations to the Audit and Risk Committee.
 - d) Suggest ERM policies and related guidance, as may be needed.
 - e) Provides insights on the following:
 - i) Risk management processes are performing as intended.
 - ii) Risk measures reported are continuously reviewed by risk owners for effectiveness.
 - iii) Established risk policies and procedures are being complied with.

XI THE EXTERNAL AUDITOR

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Corporation. In this connection, an external auditor shall be **recommended by the Audit and Risk Committee, approved by the Board, and ratified by the shareholders.**

XII ACCOUNTABILITY AND AUDIT

- 1) The Board is primarily accountable to the **shareholders**. It should provide them with a balanced and comprehensible assessment of the Corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

Thus, it is essential that Management provides all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities

to the stockholders.

Management should formulate, under the supervision of the Audit and Risk Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- a) The extent of its responsibility in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained.
 - b) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation should be maintained for the benefit of all stockholders and other stakeholders.
 - c) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations.
 - d) The Corporation should consistently comply with the financial reporting requirements of the SEC.
 - e) The external auditor should be rotated or changed every five (5) years, or the signing partner of the external auditing firm assigned to the Corporation, should be changed with the same frequency.
 - f) The Internal Auditor should submit to the Audit and Risk Committee and Management an annual report on the Internal Audit Department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit and Risk Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
- 2) The Board, after consultations with the Audit and Risk Committee, shall recommend to the **shareholders** an external auditor duly accredited by the SEC who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the **shareholders**. The external auditor shall not, at the same time, provide internal audit services to the Corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the

Corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the Corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

XIII

SHAREHOLDERS' BENEFITS AND RIGHTS AND PROTECTION OF MINORITY SHAREHOLDERS' INTEREST

It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights, encourage shareholders to exercise their rights, provide a clear-cut process and procedures to follow, and provide an adequate venue for them to seek timely redress for violation of their rights.

The Board shall be transparent and fair in the conduct of the annual and special **shareholders'** meetings of the Corporation and should provide accurate and timely information to the **shareholders** to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The **shareholders** should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the **shareholders'** meaningful participation in meetings, whether in person or by proxy. Subject of the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the **shareholders'** favor.

The Board shall respect the rights of the **shareholders** as provided for in the Corporation Code and the Code of Corporate Governance for Publicly Listed Companies, namely:

- 1) Right to vote on all matters that require their consent or approval.
- 2) Pre-emptive right to all stock issuances of the Corporation, if applicable under the Corporation's Articles of Incorporation and By-Laws.
- 3) Right to inspect corporate books and records.
- 4) Right to information.
- 5) Right to dividends.
- 6) Appraisal right.

- 7) Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting.
- 8) Right to nominate candidates to the Board of Directors.
- 9) Right to be informed of the nomination process and voting procedures that would govern the Annual and Special Shareholders' Meeting.

Although all **shareholders** should be treated equally or without discrimination, the Board should give minority **shareholders** the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.

To encourage active shareholder participation, the Corporation's Corporate Secretary shall disclose and/or publish in the PSE Edge the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) days before the meeting.

The Corporation shall make the results of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available in the PSE Edge the next working day. As much as possible, the Minutes of the Annual and Special Shareholders' Meeting should be available on the Corporation's website within five (5) business days from the end of the meeting.

The Corporation shall establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders. The IRO should be present at every shareholders' meeting.

XIV

RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDERS' RIGHTS

- 1) The Board shall identify the Corporation's various Stakeholders and promote cooperation between them and the Corporation in creating wealth, growth and sustainability.
- 2) The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.
- 3) The Board shall adopt a framework and process that allow stakeholders to communicate with the Corporation and to obtain redress for the violation of their rights.
- 4) As part of the Stakeholders of the Corporation, the Corporation's employees should be encouraged to actively participate in the realization of the Corporation's goals and its governance. For this purpose, the Board should develop policies and programs for the Corporation's employees covering, among others, the following: (1) health, safety

and welfare; (2) training and development; and (3) reward/compensation for employees.

- 5) The Corporation recognizes and places an importance on the interdependence between the Corporation's business and society, and aims to promote a mutually beneficial relationship that allows the Corporation to grow its business while contributing to the advancement of the society and communities where it operates.

XV DISCLOSURE AND TRANSPARENCY

- 1) All material information about the Corporation which could affect its viability or the interests of its **shareholders** and stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of material assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information shall be disclosed through the appropriate Exchange mechanisms and submissions to the SEC.
- 2) The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the SEC for the interest of its **shareholders** and stakeholders.
- 3) Management shall provide members of the Board with complete, adequate and timely information about the matters to be taken in their meeting. Further, the members of the Board shall be given independent access to Management and the Corporate Secretary. The members of the Board, individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the Corporation's expense.
- 4) All directors and officers shall disclose/report to the Corporation's Compliance Officer any dealing in the Corporation's shares within three (3) business days from the date of the transaction.
- 5) The Corporation should disclose its policies governing Related Party Transactions. The material or significant RPTs reviewed and approved during the year should be disclosed in its Annual Corporate Governance Report.
- 6) The Corporation, through its Investor Relations Office, shall regularly conduct media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

XVI MONITORING AND ASSESSMENT

The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under this Manual.

This Manual shall be subject to review, and may be amended or revised at any time at the discretion of the Board.

XVII PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers, and employees, in case of violation of any of the provisions of this Manual:

- 1) In case of first violation, the subject personnel shall be reprimanded.
- 2) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
- 3) For third violation, the maximum penalty of removal from office shall be imposed.

The commission of a third violation of this Manual by any member of the Board of the Corporation shall be a sufficient cause for removal from directorship.

The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

THIS MANUAL SHALL BE AVAILABLE FOR INSPECTION BY ANY STOCKHOLDER OF THE CORPORATION AT REASONABLE HOURS ON BUSINESS DAYS.

- 3) For third violation, the maximum penalty of removal from office shall be imposed.

The commission of a third violation of this Manual by any member of the Board of the Corporation shall be a sufficient cause for removal from directorship.

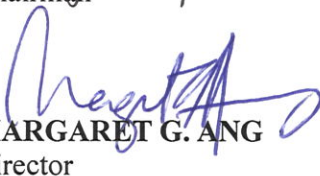
The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.


THIS MANUAL SHALL BE AVAILABLE FOR INSPECTION BY ANY SHAREHOLDER OF THE CORPORATION AT REASONABLE HOURS ON BUSINESS DAYS.

Signed and Approved by the Board of Directors on June 9, 2020 in Mandaue City, Philippines.


FRANK S. GAISANO
Chairman



JACK S. GAISANO
Director


MARGARET G. ANG
Director

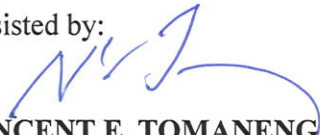

EDWARD S. GAISANO
Director


RICARDO NICANOR N. JACINTO
Independent Director


GUILLERMO L. PARAYNO, JR.
Independent Director


MANUEL C. ALBERTO
President

Assisted by:


VINCENT E. TOMANENG
Corporate Secretary and Chief Legal Counsel


TARA TSARINA B. PEREZ-RETUYA
Compliance Officer and Asst. Corporate Secretary

REPORT ON FACTUAL FINDINGS

The Board of Directors

Metro Retail Stores Group, Inc.

Vicsal Building, Corner of C.D Seno and W.O Seno Streets
Guizo, North Reclamation Area
Mandaue City, Cebu
Philippines

We have performed the procedures agreed with you and enumerated below with respect to the attached Annual Progress Report as at January 31, 2020 on the use of proceeds from the Initial Public Offering (IPO) of Metro Retail Stores Group, Inc. (the “Company”) on November 24, 2015. The procedures were performed solely to enable the Company to comply with the Philippine Stock Exchange Inc.’s (PSE) requirement to submit an external auditor’s certification on the information being presented by the Company relating to the use of proceeds. Our engagement was undertaken in accordance with the Philippine Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. These agreed-upon procedures and results thereof are summarized as follows:

1. Check the mathematical accuracy of the Quarterly Progress Report on the Disbursement of Proceeds from the IPO (the Report).
2. Compare the net proceeds received in the Report to the bank statement.
3. Compare the additions and disbursements in the Report with the schedule of application of proceeds.
4. On a sample basis, trace additions and disbursements to the supporting documents such as progress billings, certificate of time deposits, bank statements, invoices, and official receipts.
5. On a sample basis, inquire into and identify the nature of the additions and disbursements. Check if the disbursements were classified consistently according to its nature based on the schedule of planned use of IPO proceeds.

We report our findings below:

1. We checked the mathematical accuracy of the Report. No exceptions were noted.
2. We compared the net proceeds to the bank statement. No exceptions were noted.
3. We compared the additions in the Report with the schedule of application of proceeds. No disbursements from the IPO account was made for the current year. No exceptions were noted.
4. On a sample basis, we traced additions to the supporting documents such as certificate of time deposits, bank statements, and deposit slips. The Company deposited a total of One Million Two Hundred Thirteen Thousand Seventy-Six Pesos Sixty Nine Centavos (Php 1,213,076.69), net interest earned from time deposits to the IPO account. No exceptions were noted.

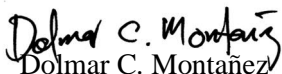
5. On a sample basis, we inquired into and identified the nature of the additions. The additions to the IPO fund pertains to the net interest earned from time deposits as a result of the discretionary use of IPO proceeds not yet applied for the capital expenditure purposes, as presented in the IPO Prospectus. No exceptions were noted.

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing (PSA) or Philippine Standards on Review Engagement (PSRE), we do not express any assurance on the accounts of the Company or its financial statements, taken as a whole.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with PSA or PSRE, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report relates only to the report on the Company's application of proceeds from the offering and items specified above do not extend to any financial statements of the Company, taken as a whole.

SYCIP GORRES VELAYO & CO.


Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019, valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125272, January 7, 2020, Makati City

January 30, 2021

THE PHILIPPINE STOCK EXCHANGE

Philippine Stock Exchange Plaza
6th Floor, PSE Tower
Bonifacio Global City, Taguig

Attention: Ms. Janet A. Encarnacion
Head, Disclosure Department

Subject: Annual Progress Report on the
Disbursement of Proceeds from the
Initial Public Offering ("IPO") of
Metro Retail Stores Group, Inc.
("MRSGI")

Dear Ms. Encarnacion,

We are pleased to submit our Progress Report on the Application of Proceeds for 2020, duly certified by our external auditors, in compliance with the disclosure requirements of the Philippine Stock Exchange.

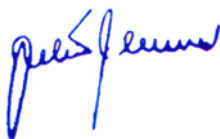
Please be advised that as of December 31, 2020 the remaining balance of the proceeds from the MRSGI common shares IPO amounts to Seven Hundred Fourteen Million Nine Hundred Ten Thousand Eight Hundred Forty One and Forty Eight Centavos (Php 714,910,841.48)

The details of the disbursement for the Calendar Year 2020 are as follows:

Balance of IPO Proceeds as of December 31, 2019	Php	713,697,764.79
Add: Interest earned		<u>1,213,076.69</u>
Balance of IPO Proceeds as of December 31, 2020	Php	<u>714,910,841.48</u>

Thank you.

Very truly yours,



JOSELITO G. ORENSE
Treasurer / Chief Financial Officer