

METRO RETAIL STORES GROUP, INC. SEC FORM 20-IS (DEFINITIVE)

September 1, 2020

SECURITIES AND EXCHANGE COMMISSION

G/F Secretariat Building
PICC Complex, Roxas Boulevard
Manila, 1307

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

Re: Definitive Information Statement

Dear Dir. Felizmenio:

Please see attached, our reply to your Additional Comments on the Definitive Information Statement (SEC Form 20-I.S.) of Metro Retail Stores Group, Inc. (MRS GI). Also attached are the following documents for your clearance:

1. Definitive Information Statement
2. Audited Financial Statements (Annex to DIS)
3. 17Q - 2nd Quarter Financial Report (Annex to DIS)
4. Certification

We trust that you will find the foregoing in order and merit us with the favorable clearance on or before September 3, 2020, the deadline for the posting of the DIS and its attachments, for distribution to the stockholders via MRS GI's website and the PSE Edge.

Very truly yours,



ATTY. TARA TSARINA B. PEREZ- RETUYA
Asst. Corporate Secretary and Compliance Officer

Metro Retail Stores Group, Inc.			MRS GI REPLY
Preliminary Information Statement was filed on 26 March 2020 .			
SEC Form 20-IS			
Checklist of Requirements	Page No.	Remarks	
Notice of Meeting		Submit a copy of the Board Resolution that authorizes the conduct of the ASM through remote communication as required under Sections 23 and 52 of the Revised Corporation Code (RCC).	ATTACHED

COVER SHEET			
8. Date, time and place of the meeting of security holders		Please disclose the place of meeting. Refer to Section 15. Place of Meetings under MC 6, series of 2020. A place of meeting is still a requirement where the presiding officer will preside the meeting.	DISCLOSED.
Part I.			
A. General Information			
ITEM 1. DATE, TIME AND PLACE OF MEETING			
Date, time, place of meeting		Please disclose the place of meeting. Refer to Section 15. Place of Meetings under MC 6, series of 2020. A place of meeting is still a requirement where the presiding officer will preside the meeting.	DISCLOSED.

1) Summary Compensation Table			
(a) Name and Principal Position (b) Year (c) Salary(P) (d) Bonus(P) (e) Other Annual Compensation		Please follow table format in disclosing the compensation.	PLEASE SEE REVISED TABLE

Market Information			
(b) If the information called for by paragraph (a) of this Part is being presented, the document shall also include the price information as of the latest practicable trading date, and in		Please provide the share's closing price at the latest practicable date.	UPDATED

the case of securities to be issued in connection with an acquisition, business combination or other reorganization, as of the trading date immediately prior to the public announcement of such transaction.			
Holders			
(a) (i) Approximate Number of Holders of Each Class of Common Security as of the latest practicable date but in no event more than 90 days prior to filing of report.		Please update information as of July 31, 2020 or as of the record date, whichever is practicable.	UPDATED
(ii) Names of the Top Twenty (20) Shareholders of Each Class			UPDATED
(iii) Number of Shares Held			UPDATED
(iv) Percentage of Total Shares Outstanding Held by Each			UPDATED

AUDITED FINANCIAL STATEMENTS			
ADDITIONAL COMPONENTS OF FINANCIAL STATEMENTS (SRC Rule 68, as amended October 2011)			SUBMITTED AND ATTACHED.
B. Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1,4 (c))	Please submit Please submit		
D. A map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates (Par 4 (h))	Please submit Please submit		

CERTIFICATION

I, **ATTY. TARA TSARINA B. PEREZ-RETUYA**, incumbent **Compliance Officer and Asst. Corporate Secretary of Metro Retail Stores Group, Inc., with SEC Registration No. 200315877**, with principal office address at the Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu, after having been duly sworn in accordance with law, hereby depose and state that:

1) The **Metro Retail Stores Group, Inc.**, will comply with the guidelines for the alternative filing of reports and/or documents through electronic mail with the Securities and Exchange Commission through Corporate Governance and Finance Department (CGFD) in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019).

2) The information contained in the **SEC Form 20-IS DEFINITIVE INFORMATION STATEMENT** is true and correct to the best of my knowledge.

3) On behalf of **Metro Retail Stores Group, Inc.**, I hereby undertake to:

- a) submit hard or physical copies of **SEC Form 20-IS Definitive Information Statement** with proper notarization and certification;
- b) pay the filing fees (where applicable);
- c) pay the penalties due (where applicable); and
- d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.

4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.

5) I am executing this certification on August 26, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



ATTY. TARA TSARINA B. PEREZ-RETUYA
Compliance Officer and Asst. Corporate Secretary
Metro Retail Stores Group, Inc.

[REDACTED], valid until [REDACTED]

REPUBLIC OF THE PHILIPPINES)
CITY OF CEBU) S. S.

SECRETARY'S CERTIFICATE



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

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

IN WITNESS WHEREOF, I have hereunto affixed my signature this March 26, 2020 in Cebu City.



ATTY. TARA TSARINA B. PEREZ-RETUYA
Asst. Corporate Secretary

BEFORE ME, a Notary Public for and in Cebu City, this MAR 26 2020, 2020, personally appeared the following:

Affiant	Competent Evidence of Identity	
	Type of ID	Passport Number and Expiry Date (if applicable)
Tara Tsarina B. Perez-Retuya	Passport No.	 , valid until  DFA Cebu

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

Doc. No. 200;
Page No. 41;
Book No. LIX;
Series of 2020.


VINCENT E. TOMAMENG
NOTARY PUBLIC FOR CEBU CITY
COMMISSION UNTIL DEC 31, 2020
ROLL OF ATTORNEY NO. 39448
IBP LIFETIME NO. 1029091, CEBU CITY
PTR NO. 1571548 1/7/20 CEBU CITY
MCLE COMPLIANCE NO. VI-0011298
SUITE 210 2ND FLOOR THE WALK, CEBU IT PARK
LAHUG, CEBU CITY

March 26, 2020

SECURITIES AND EXCHANGE COMMISSION

G/F Secretariat Building
PICC Complex, Roxas Boulevard
Manila 1307

Attention: **RACHEL ESTHER J. GUMTANG-REMALANTE**
Director, Corporate Governance and Finance Department

RE: **Certification of Independent Directors**


Director Remalante:

In connection with the Annual Stockholders' Meeting of Metro Retail Stores Group, Inc. ("MRSGL") to be held on May 8, 2020 (Friday), the following are nominated for election as Independent Directors:

1. Guillermo L. Parayno, Jr.
2. Ricardo Nicanor N. Jacinto

We submit herewith the Certification of Independent Directors duly executed by the above mentioned nominees for Independent Directors of MRSGL.

Very truly yours,


ATTY. TARA TSARINA B. PEREZ-RETUYA
Compliance Officer and Asst. Corporate Secretary

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **GUILLERMO L. PARAYNO, JR.**, Filipino, of legal age, married, and a resident of [REDACTED] after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of Metro Retail Stores Group, Inc. (the "Company") and have been its independent director since July 16, 2015.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
E-Konek Pilipinas, Inc.	Chairman and President	Present
Philippine Veterans Bank	Director and Vice-Chairman	Present
Bagong Silang Farms, Inc.	Chairman and President	Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the Company, as provided for under Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations, and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of the Company.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of the Company of any changes in the abovementioned information within five (5) days from its occurrence.

05 MAR 2020

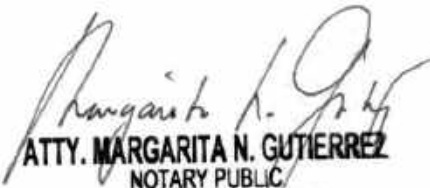
Done this _____ at MANDALUYONG CITY




GUILLERMO L. PARAYNO, JR.
Affiant

SUBSCRIBED AND SWORN to before me this 05 MAR 2020 at MANDALUYONG CITY
personally appeared before me and exhibited to me his [REDACTED] issued on
_____ at _____.

Doc. No. 8 ;
Page No. 16 ;
Book No. I ;
Series of 2020.


ATTY. MARGARITA N. GUTIERREZ
NOTARY PUBLIC
UNTIL DECEMBER 31, 2020
PTR NO. 2969417 2020/01/10 MAND. CITY
IBP LIFETIME MEMBER # 09990
ROLL # 59771

File

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **RICARDO NICANOR N. JACINTO**, Filipino, of legal age, married, and a resident of [REDACTED], after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of Metro Retail Stores Group, Inc. (the "Company") and have been its independent director since July 27, 2015.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Judicial Reform Initiative	Treasurer and Trustee	Present
SBS Philippines Corporation	Director	Present
Torre Lorenzo Development Corporation	Executive Director	Present
Maybank ATR Kim Eng	Independent Director	Present
Etiqa Life and General Assurance Philippines, Inc.	Independent Director	Present
SBS Holdings and Enterprises Corporation	Director	Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the Company, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of the Company.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of the Company of any changes in the abovementioned information within five (5) days from its occurrence.


[Handwritten Signature]

Done this 05 MAR 2020
at _____.


RICARDO NICANOR N. JACINTO
Affiant

SUBSCRIBED AND SWORN to before me this 05 MAR 2020 at MANDALUYONG CITY
affiant personally appeared before me and exhibited to me his Philippine Passport No.
[REDACTED] valid until January 5, 2022, issued at DFA NCR South.

Doc. No. 7 ;
Page No. 16 ;
Book No. 1 ;
Series of 2020.


ATTY. MARGARITA N. GUTIERREZ
NOTARY PUBLIC
UNTIL DECEMBER 31, 2020
PTR NO 2969417 2020/01/10 MAND. CITY
IBP LIFETIME MEMBER # 08990
ROLL # 59771



REPUBLIC OF THE PHILIPPINES)
CITY OF CEBU

) S. S.

SECRETARY'S CERTIFICATE

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

1. I am the duly elected, qualified, and incumbent Assistant Corporate Secretary of **METRO RETAIL STORES GROUP, INC.** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at the Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu.
2. As such Assistant Corporate Secretary, I am in custody of the corporate books and records of the Corporation, including the minutes of meetings of its Board of Directors and Stockholders.
3. I hereby certify that at the Regular Meeting of the Board of Directors held on August 12, 2020 via Google Video Hangouts where a quorum was present, the Board has unanimously adopted and approved **Board Resolution No. 018-2020**, which is now in full force and effect and has not been amended or revoked:

Board Resolution No. 018-2020

"RESOLVED, that the **2020 Annual Stockholders' Meeting ("ASM")** of **Metro Retail Stores Group, Inc.** (the "Corporation") shall be held on **September 25, 2020** ("Friday") at 9:00 in the morning via remote communication under the platform of Zoom Video Communications. The virtual ASM is necessitated by the Covid19 pandemic situation where physical gatherings are highly discouraged;

RESOLVED, FURTHER, to authorize the stockholders of the Corporation to exercise their right to vote and/or participate, *in absentia* or through remote communication at the ASM;

RESOLVED, FURTHER, that this resolution on the holding of the ASM via remote communication shall only apply to the 2020 ASM of the Corporation;

RESOLVED, FURTHER, that the record date shall be on **August 27, 2020** for purposes of determining the list of stockholders of the Corporation who are entitled to vote at the 2020 ASM;

RESOLVED, FURTHER, that pursuant to the SEC Notice dated April 20, 2020 to be applied during the 2020 ASM, the Notice of the ASM shall not anymore be sent to the stockholders. Instead, the Corporation shall notify the stockholders by causing the publication of the Notice of the ASM in the business section of two (2) newspapers of general circulation, in print and online format, for two (2) consecutive days. Provided, that the last publication shall be made not later than 21 days before the ASM;

Board Resolution No. 018-2020

RESOLVED, FURTHER, that the deadline for submission by the stockholders of their proxies for the 2020 ASM to the Corporate Secretary shall be on **September 15, 2020**. Proxies received by the Corporate Secretary thereafter shall not be considered for purposes of the 2020 ASM;

RESOLVED FINALLY, that the Board of Directors of the Corporation hereby approves the Notice and Agenda, with Proxy Form, for the 2020 ASM, attached herewith as Annexes "A" and "B".

IN WITNESS WHEREOF, I have hereunto affixed my signature this day of AUG 28 2020 2020 in Cebu City.

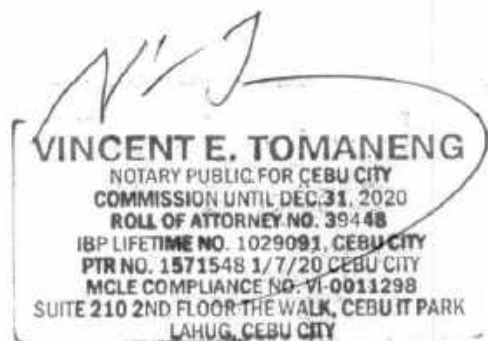
Tara Tsarina B. Perez-Retuya
ATTY. TARA TSARINA B. PEREZ-RETUYA
 Asst. Corporate Secretary

BEFORE ME, a Notary Public for and in Cebu City, this day of AUG 28 2020 2020, personally appeared the following:

Affiant	Competent Evidence of Identity	
	Type of ID	Passport Number and Expiry Date (if applicable)
Tara Tsarina B. Perez-Retuya	Passport	<div style="background-color: black; height: 15px; width: 100%;"></div> 2022, DFA Cebu

who represented to me that she executed the foregoing document consisting of two (2) pages for the purposes stated therein and acknowledged to me that the same is her free and voluntary act and deed and of the corporation she represents.

Doc. No. 72 ;
 Page No. 16 ;
 Book No. LX ;
 Series of 2020.



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
2 0 I S

Department requiring the report
M S R D

Secondary License Type, If Applicable
N / A

Preliminary

COMPANY INFORMATION

Company's Email Address info@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) 12/31

CONTACT PERSON INFORMATION

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

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

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

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

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

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

Please take notice that the 2020 Annual Stockholders' Meeting ("ASM") of Metro Retail Stores Group, Inc. (the "Company"), will be held on September 25, 2020 (Friday) at 9:00 in the morning via remote communication under the platform of Zoom Video Communications.

The Agenda for the ASM shall be as follows:

1. Call to Order
2. Proof of Notice of the Meeting and Existence of Quorum
3. Chairman's Message
4. Reading and approval of the Minutes of the ASM held on May 3, 2019
5. President's Message
6. Management Presentations and Approval of the Annual Report and the Audited Financial Statements for CY 2019
7. Appointment of External Auditor for CY 2020
8. General ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last ASM up to the date of this meeting
9. Election of Board of Directors
10. Consideration of such other matters as may properly come during the meeting
11. Adjournment

The Minutes of the 2019 ASM is available for examination at the website of the Company at www.metroretail.com.ph.

The record date shall be on August 27, 2020 for purposes of determining the list of stockholders of the Corporation who are entitled to vote at the 2020 ASM.

The Company will allow attendance only by remote communication and voting *in absentia*, subject to validation procedures.

Stockholders who will participate in the ASM by remote communication should pre-register at <https://asm2020.mrsgi.com> on or before September 20, 2020. Successful registrants will receive an email invitation with a complete guide on how to join the ASM and how to cast votes *in absentia*. For any registration concerns, please contact philip.coronado@metroretail.ph. Please refer to the Definitive Information Statement on the guidelines on attendance by remote communication and voting *in absentia* which is posted at the website of the Company at www.metroretail.com.ph. Only stockholders who have successfully registered within the prescribed period, together with the stockholders who voted *in absentia* and by proxy, will be included in the determination of quorum.

Proxies, in the form provided by the Company, must be scanned and emailed to the Company's Corporate Secretary at mrsgi_asmregister@metroretail.ph, not later than September 15, 2020. The proxies shall be validated on September 18, 2020. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised. **WE ARE NOT, HOWEVER, SOLICITING PROXIES.**

Stockholders may send their questions about the ASM and the Company to its Investor Relations Officer at jj.moreno@metroretail.ph and/or joseph.magnabihon@metroretail.ph. He will reply accordingly.

Pursuant to SEC Notice dated April 20, 2020, the Stockholders may examine the Definitive Information Statement, Management Report, and SEC Form 17A at the Company's website and through the PSE Edge Portal.

There will be an audio and video recording of the ASM. All votes cast shall be validated by the Stock and Transfer Agent, Rizal Commercial Banking Corporation -Trust and Investments Group.

August 12, 2020, Mandaue City, Cebu.

For the Board of Directors,



ATTY. VINCENT E. TOMANENG
Corporate Secretary

PROXY

The undersigned stockholder of Metro Retail Stores Group, Inc. (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as my proxy at the 2020 Annual Stockholders' Meeting ("ASM") of the Company, to be held via remote communication on September 25, 2020 (Friday) at 9:00 in the morning, for the purpose of acting on the following matters:

	Proposal	Approve	Disapprove	Abstain
I	Approval of the Minutes of the ASM held on May 3, 2019			
II	Approval of the Annual Report and the Audited Financial Statements for CY 2019			
III	Appointment of SGV&Co. as the External Auditor for CY 2020			
IV	Ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last ASM up to the date of this meeting			

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

Number of Shares Held

Signature of Stockholder/ Authorized Signatory

Date

Printed name of Stockholder

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

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

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

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

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

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

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

8. Date, time and place of the meeting of security holders: **September 25, 2020 (Friday) 9:00 a.m.; via remote communication under the platform of Zoom Video Communications; Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **September 3, 2020**

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

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Stock, P1.00 per share par value	3,429,375,000

11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes

No

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

A. GENERAL INFORMATION

Date, time and place of meeting of security holders.

Date, Time and Place of Meeting

**September 25, 2020 (Friday)
9:00 a.m. via remote communication
under the platform of Zoom Video
Communications;
Vicsal Building, corner of C.D. Seno and
W.O. Seno Sts., Guizo, North
Reclamation Area, Mandaue City, Cebu**

Complete Mailing Address of Principal
Office

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

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

September 3, 2020

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

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

Dissenters' Right of Appraisal

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

Consistent with Section 80 of the Revised Corporation Code, any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

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

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

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

There are no matters to be acted upon by the stockholders at the Annual Meeting of the Stockholders to be held on September 25, 2020 which would require the exercise of the appraisal right.

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

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

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

No director or nominee for election as director has informed the Company of his opposition to any matter to be acted upon at the Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

1. The Company has 3,429,375,000 outstanding shares as of August 27, 2020. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.
2. All stockholders of record as of August 27, 2020 are entitled to notice and to vote at the Company's Annual Stockholders' Meeting.

Directors and Executive Officers

Election of Directors

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

For the 2020 Annual Stockholders' Meeting, the Company will allow attendance only by remote communication and voting *in absentia*, subject to validation procedures. Please refer to D. Other Matters of this DIS on Voting Procedures and Guidelines for Participating via Remote Communication and Voting *In Absentia*.

Proxies, in the form provided by the Company, must be scanned and emailed to the Company's Corporate Secretary at mrsgi_asmregister@metroretail.ph, not later than September 15, 2020. The proxies shall be validated on September 18, 2020. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting.

Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners of more than 5 % of the Company's voting securities as of August 27, 2020

As of August 27, 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	Citizen ship	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	630,099,062	18.37%
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	146,777,660	4.28%

Notes:

1. Vicsal Development Corporation (VDC) is the principal stockholder of the Company. As of August 27, 2020, VDC holds a total of 2,627,427,300 shares of the Company. The Board of Directors of VDC has the power to decide how the VDC shares in the Company are to be

voted. “Any One” of the following directors/officers of VDC is authorized to vote the shares of VDC in the Company:

- a. Ms. Margaret G. Ang - Director/Corporate Secretary/ Treasurer
- b. Mr. Jack S. Gaisano - Director
- c. Dr. Edward S. Gaisano - Chairman and President
- d. Mr. Frank S. Gaisano - Director
- e. Mr. Aljim C. Jamandre - Group Chief Financial Officer

2. PCD Nominee Corporation is the registered owner of the shares in the books of the Company’s stock and transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. (“PDTC”), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce a scripless or book-entry trading in the Philippines. Under the current PDTC system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.
3. None of the Top 100 PDTC Participants - Filipino, hold 5% or more of the Company’s outstanding capital stock as of August 27, 2020.
3. None of the Top 100 PDTC Participants – Foreign hold 5% or more of the Company’s outstanding capital stock as of August 27, 2020.

Security Ownership of Management of the Company’s voting securities as of August 27, 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 and Chief Legal Counsel	500,000	0	Filipino	0.01%

Common	Tara Tsarina B. Perez- Retuya	Asst. Corporate Secretary and Compliance Officer	0	0	Filipino	0
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Shares owned by foreigners

The total number of common shares owned by foreigners as of July 31, 2020 is 145,253,660 shares.

Voting Trust Holders of 5% or more – as of July 31, 2020

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

Changes in Control

As of July 31, 2020, there has been no change in the control of the Company, and there are no arrangements which may result in a change in control of the Company.

Directors and Executive Officers

Board of Directors

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

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

Name	Age	Nationality	Position
1. Frank S. Gaisano	62	Filipino	Chairman
2. Jack S. Gaisano	66	Filipino	Director
3. Edward S. Gaisano	64	Filipino	Director
4. Margaret G. Ang	68	Filipino	Director
4. Manuel C. Alberto	54	Filipino	Director
6. Guillermo L. Parayno, Jr.	71	Filipino	Independent Director
7. Ricardo Nicanor N. Jacinto	59	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 May 3, 2019.

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, 62, 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, 66, 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, 64, has served as a Director of the Company since 2003. He has been a board-certified Doctor of Medicine since 1980. Mr. Gaisano is currently Chairman and President of Vicsal Development Corporation. He is also Chairman of Wealth Development Bank Corporation, Hyundai Alabang, Inc. and Hyundai Southern Mindanao, Inc. He is a Director of Taft Property Venture Development Corporation and is the President of Pacific Mall Corporation and former President of the Cebu Chamber of Commerce & Industry. Additionally, Mr. Gaisano is a Trustee of Vicsal Foundation, Incorporated, and a member of the Society of Fellows of the Institute of Corporate Directors.

Margaret G. Ang, 68, 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, 54, 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, 59, 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, and SBS Holdings and Enterprises Corporation, an Independent Director of Maybank ATR Kim Eng and Etiqa Life and General Assurance Philippines, Inc., and the Treasurer/Trustee of the Judicial Reform Initiative. 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., 71, was elected as an independent Director of the Company on July 16, 2015. Mr. Parayno is also the Chairman and President of E-Konek Pilipinas, Inc. and the Director and Vice Chairman of Philippine Veterans Bank. He is also President of the Parayno Consultancy Services on logistics and distribution, customs, information, technology and taxation, and the Chairman & President of Bagong Silang Farms, Inc. Previously, Mr. Parayno led several Asian Development Bank Missions relating to Trade Facilitation and served as Commissioner of Customs from 1992 to 1998, and Commissioner of the Bureau of Internal Revenue from 2002-2005.

Officers

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

Name	Age	Nationality	Position
Frank S. Gaisano	62	Filipino	Chairman & Chief Executive Officer
Manuel C. Alberto	54	Filipino	President & Chief Operating Officer
Joselito G. Orense	54	Filipino	Treasurer & Chief Financial Officer
Vincent E. Tomaneng	52	Filipino	Corporate Secretary and Chief Legal Counsel
Tara Tsarina B. Perez- Retuya	36	Filipino	Assistant Corporate Secretary & Compliance Officer

Brief Description - Officers

Joselito G. Orense, 54, 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, 52, 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 Corporate Secretary of Vicsal Foundation, Incorporated since February 2020.

Tara Tsarina B. Perez-Retuya, 36, was appointed as the Assistant Corporate Secretary and Compliance Officer on November 7, 2017, and assumed the position on November 30, 2017. She earned her Bachelor of Science in Psychology (2005, Cum Laude) and Bachelor of Laws (2010) degrees from the University of San Carlos in Cebu City. Prior to joining the Company, she has served as Associate General Counsel of Aboitiz Equity Ventures, Inc. (2010-2012), and Securities Counsel of the Securities and Exchange Commission (2012-2017).

Committees

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

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

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

1. Edward S. Gaisano – Chairman
2. Margaret G. Ang
3. Guillermo L. Parayno, Jr.
4. Ricardo Nicanor N. Jacinto
5. Manuel C. Alberto

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

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

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

1. Margaret G. Ang– Chairman
2. Jack S. Gaisano
3. Frank S. Gaisano
4. Ricardo Nicanor N. Jacinto
5. Guillermo L. Parayno, Jr.

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

In accordance with SEC Memorandum Circular No. 19, series of 2016, the Company has filed its Revised Manual on Corporate Governance last May 30, 2017, and its Second Amended Manual on Corporate Governance duly approved by the Company's Board of Directors on November 12, 2019, which substantially complied with the requirements under SRC Rule 38, as amended, and the Revised Code of Corporate Governance for Publicly Listed Companies. Under the Second Amended Manual on Corporate Governance, the following criteria and guidelines shall be observed in the pre-screening, short-listing, and nomination of Independent Directors:

A. Independent Director – Defined

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

B. Qualifications

An independent director is a person who:

- a. Is not a director, senior officer, employee, or substantial stockholder of the Company or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing);

- b. Is not a relative of any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- c. Is not acting as a nominee or representative of a substantial shareholder of the Company, any of its related companies or any of its substantial shareholders;
- d. Has not been employed in any executive capacity by the Company, any of its related companies or any of its substantial shareholders within the last three (3) years;
- e. Has not been appointed in the Company, its subsidiaries, associates, affiliates, or related companies as Chairman "Emeritus". "Ex-Officio" Directors/Officers or members of an advisory board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within 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 Company, any of its related companies, or any of its substantial shareholders within the last three (3) years;
- g. Has not engaged and does not engage in any transaction with the Company or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a directors or substantial shareholder, other than transactions which are conducted at arm's-length and are immaterial or insignificant;
- h. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes among others, a director, (except an independent director who will not be disqualified to become an independent director of the Company), officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- i. Is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders;
- j. It not employed as an executive officer of another company where any of the Company's executives serves as directors.

C. Disqualifications

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

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

D. Election

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

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

E. Term and Cessation

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

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

F. Number of Independent Directors

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

Nomination of Candidates for Directors

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

have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

Final List of Candidates for Directors

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

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

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

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

Significant Employees

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

Family Relationships

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

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

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

Involvement in Certain Legal Proceedings

To the best of the Company's knowledge and belief and after due inquiry, none of the Company's directors, nominees for election as director, or executive officers have in the five-year period prior to the date of this Report: (1) had any petition filed by or against any business of which

such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time; (2) have been convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses; (3) have been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

However, one of our Independent Directors, Mr. Guillermo L. Parayno, Jr., has disclosed that there was one (1) filed complaint before the Office of the Ombudsman where he has been named as a respondent in his previous capacity as the former Commissioner of Customs. As of June 22, 2018, the pending case was already dismissed, and the corresponding Clearance No. 03943407 was issued by the National Bureau of Investigation on July 11, 2018.

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

Certain Relationships and Related Party Transactions

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

Please refer to Note 21 (Related Party Transactions) of the Notes to Consolidated Financial Statements.

Compensation of Directors and Executive Officers

Summary Compensation Table

The following table sets out the Company's Chairman and Chief Executive Officer and four most highly compensated senior officers of the Company for the last three (3) years and projected for the ensuing year (2020):

Name	Position	Year	Aggregate Salary (Annual)	Bonus	Other Annual Compensation
Frank S. Gaisano	Chairman and Chief Executive Officer	2019	Php 55,378,513.98	-	6,159,231.46
Manuel C. Alberto	President and Chief Operating Officer	2019			
Conchita G. Lazaro	Deputy Chief Marketing and Merchandising Officer	2019			
Joselito G. Orense	Chief Financial Officer and Treasurer	2019			
Jonathan Juan DC Moreno	Chief Strategy and Governance Officer	2019			
All Other Officers and Directors as a Group Unnamed		2019	Php 4,032,179.30	-	-

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 2017, 2018, and 2019 and for the ensuing year 2020:

Name	Year	Aggregate Salary (Annual)	Bonus	Other Annual Compensation
Chairman and Chief Executive Officer and the four most highly compensated executive officers named above	2017 (Actual)	41,868,700.76	1,165,384.64	4,766,900.96
	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 (Projected)	55,378,513.98	-	6,159,231.46
All other Officers	2017 (Actual)	3,663,710.90	-	-

and Directors as a Group Unnamed	2018 (Actual)	4,227,222.34	–	–
	2019 (Actual)	4,032,179.30	–	–
	2020 (Projected)	4,070,512.82	–	–

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, 2019 is as follows:

Name of Director	Total Director's Fees (in Php)
Frank S. Gaisano <i>Chairman & Chief Executive Officer</i>	76,923.05
Jack S. Gaisano <i>Director</i>	33,333.30
Edward S. Gaisano <i>Director</i>	55,555.50
Margaret G. Ang <i>Director</i>	55,555.50
Manuel C. Alberto <i>President & Chief Operating Officer</i>	76,923.05
Guillermo L. Parayno, Jr.	1,355,000.00

<i>Independent Director</i>	
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.

Independent Public Accountants

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

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

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

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

Audit and Audit Related Fees

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

Audit and Audit-Related Fees	2019	2018	2017
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱2,079,000	₱2,079,000	₱1,890,000
Professional Fees related to the Initial Public Offering	–	–	–
Fees for tax-related services	150,000	–	–
All Other Fees	–	145,000	–
Total	₱2,229,000	₱2,224,000	₱1,890,000

All Other Fees pertain to fees paid by the Company for the certification of the Company's Disbursement of IPO Proceeds and Progress Report in 2018.

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, 2019, 2018, and 2017.

The Audit and Risk Committee approves any engagement for the services of the external auditor. After reviewing the need for the services of the external auditor, the Audit and Risk Committee shall review the engagement proposal submitted. If the Audit and Risk Committee finds the engagement proposal acceptable, the Audit and Risk Committee then approves and passes a resolution appointing the external auditor and recommends that the said resolution be endorsed for the approval of the Company's stockholders during the Annual Meeting of the Stockholders of the Company. The stockholders of the Company then approves and ratifies the recommendation of the Audit and Risk Committee during the Annual Stockholders' Meeting.

Compensation Plans

None

C. ISSUANCE AND EXCHANGE OF SECURITIES

Authorization or Issuance of Securities Other than for Exchange

None

Modification or Exchange of Securities

None

Financial and Other Information

Please refer to Part II (Operational and Financial Information) of the Company's Management Report which is attached as Annex "A" of the DIS.

Mergers, Consolidations, Acquisitions and Similar Matters

None

Acquisition or Disposition of Property

None

Restatement of Accounts

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

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

D. OTHER MATTERS

Action with respect to reports

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

1. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on May 3, 2019
2. Approval of the Annual Report and the Audited Financial Statements for CY 2019
3. Appointment of Sycip Gorres Velayo & Co. as External Auditor of the Corporation for the year 2020
4. General ratification of all acts and resolutions of the Board of Directors and its committees, officers and management since the last annual stockholders' meeting up to the date of this meeting
5. Election of Board of Directors
6. Consideration of such other matters as may properly come during the meeting

A summary of the matters approved and recorded in the Minutes of the Annual Meeting of the Stockholders last May 3, 2019 is as follows:

1. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on May 4, 2018
2. Approval of the Annual Report and the Audited Financial Statements for CY 2018
3. Appointment of Sycip Gorres Velayo & Co. as External Auditor of the Corporation for the year 2019
4. Ratification and Approval of previous acts of the Directors, Committees, Officers, and Management of the Corporation; and
5. Election of Board of Directors

The Minutes of the 2019 Annual Stockholders' Meeting can be examined at the website of the Company at www.metroretail.com.ph.

Below is a brief description of material matters approved by the Board of Directors and Management and disclosed to the SEC and PSE since the last annual meeting of stockholders held on May 3, 2019 for ratification by the stockholders:

<u>Date of Board Approval</u>	<u>Description</u>
May 3, 2019	6. Election of Officers and Members of the Board Committees 7. Approval of the 2019 1 st Quarter Financial Results and the accompanying SEC Form 17Q
August 7, 2019	1. Approval of the 2019 2 nd Quarter Financial Results and the accompanying SEC Form 17Q
November 12, 2019	1. Approval of the 2019 3 rd Quarter Financial Results and the accompanying SEC Form 17Q 2. Approval of the Second Amended Manual on Corporate Governance
February 21, 2020	1. Approval of Details of the 2020 Annual Stockholders' Meeting
March 18, 2020	1. Approval of the Audited Financial Statements for the period December 31, 2019, and the accompanying SEC

	Form 17-A
April 13, 2020	1. Postponement of the May 8, 2020 Annual Stockholders' Meeting
May 14, 2020	1. Approval of the 1 st Quarter 2020 Financial Report and the Accompanying SEC Form 17Q 2. Declaration of Cash Dividends
August 12, 2020	1. Approval of the 2 nd Quarter 2020 Financial Report and the Accompanying SEC Form 17Q 2. Holding of the 2020 Annual Stockholders' Meeting via Remote Communication

Matters Not Required to be Submitted

None

Amendment of Charter, By-Laws or Other Documents

None

Other Proposed Actions

None

Voting Procedures

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

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

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

Guidelines for Participating via Remote Communication and Voting in Absentia

The 2020 Annual Stockholders' Meeting ("ASM") of Metro Retail Stores Group, Inc. (the "Company"), will be held on September 25, 2020 (Friday) at 9:00 in the morning via remote communication under the platform of Zoom Video Communications. The virtual ASM is necessitated by the Covid19 pandemic situation where physical gatherings are highly discouraged.

The record date shall be on August 27, 2020 for purposes of determining the list of stockholders of the Corporation who are entitled to vote at the 2020 ASM.

The Company will allow attendance only by remote communication and voting *in absentia*, subject to validation procedures.

Stockholders who will participate in the ASM by remote communication should pre-register at <https://asm2020.mrsgi.com> on or before September 20, 2020. Successful registrants will receive an email invitation with a complete guide on how to join the ASM and how to cast votes *in absentia*. For any registration concerns, please contact philip.coronado@metroretail.ph. Only stockholders who

have successfully registered within the prescribed period, together with the stockholders who voted *in absentia* and by proxy, will be included in the determination of quorum.

Proxies, in the form provided by the Company, must be scanned and emailed to the Company's Corporate Secretary at mrsgi_asmregister@metroretail.ph, not later than September 15, 2020. The proxies shall be validated on September 18, 2020. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised.

Pre- Registration

A stockholder who wishes to attend/participate in the 2020 ASM must pre-register at <https://asm2020.mrsgi.com> on or before September 20, 2020 and upload the following supporting documents/information:

• Individual Stockholders

1. Copy of valid government ID of stockholder/proxy
2. If appointing a proxy, copy of proxy form duly signed by stockholder (need not be notarized)

• Multiple Stockholders or joint owners

1. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need not be notarized)
2. Copy of valid government IDs of all registered stockholders

• Corporate Stockholders

1. Secretary's Certification of Board resolution appointing and authorizing List of Signatories
2. Proxy Form for authorized representative duly signed by approved signatories
3. Valid government ID of the authorized representative

• Stockholders with Shares under broker account

1. Certification from broker as to the number of shares owned by stockholder
2. Valid government ID of stockholder
3. If appointing a proxy, copy of proxy form duly signed by stockholder (need not be notarized)

The Company will then check and validate the entries uploaded by the stockholder.

Voting

Stockholders who have successfully registered shall be notified via email of the link to the voting portal. Stockholders can then cast their votes in absentia for specific items in the agenda, as follows:

1. Log-in to the voting portal by clicking the link, and using the log-in credentials, sent by email to the email-address of the stockholder provided to the Company.
2. Upon accessing the portal, the stockholder can proceed to vote on each agenda item.
 - 2.1 A stockholder has the option to vote "Approve", "Disapprove", or "Abstain" on each agenda item for approval.
 - 2.2 For the election of directors, the stockholder has the option to vote for all nominees, withhold vote for any of the nominees, or vote for certain nominees only. Please refer to page 3 of the DIS on the rule on cumulative voting (Election of Directors).

3. Once the stockholder has finalized his/her vote, he/she can proceed to submit his/her vote by clicking the “Submit” button.

Voting shall close two (2) business days before the ASM or on September 22, 2020. All votes cast shall be validated by the Stock and Transfer Agent, Rizal Commercial Banking Corporation -Trust and Investments Group.

ASM Livestream

The ASM will be broadcasted live and stockholders who have successfully registered can participate via remote communication. Details of the meeting will be sent to the stockholders in the emails provided to the Company.

Others

There will be no open forum during the ASM. Stockholders may send their questions about the ASM and the Company to its Investor Relations Officer at jj.moreno@metroretail.ph and/or arrenz.magnabihon@metroretail.ph. He will reply accordingly.

Pursuant to SEC Notice dated April 20, 2020, the Stockholders may examine the Definitive Information Statement, Management Report, and SEC Form 17A at the Company’s website and through the PSE Edge Portal.

There will be an audio and video recording of the ASM, which will be adequately maintained by the Company and will be made available to participating stockholders upon written request.

Restriction that Limits the Payment of Dividends on Common Shares

None

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

Not applicable

Corporate Governance

In accordance with SEC Memorandum Circular No. 24, series of 2019, the Company has filed its Revised Manual on Corporate Governance last May 30, 2017, its Second Amended Manual on Corporate Governance on November 12, 2019, and its Third Amended Manual on Corporate Governance duly approved by the Board of Directors on June 9, 2020 (the “Manual”) which substantially complied with the requirements under SRC Rule 38, as amended, and the Revised Code of Corporate Governance for Publicly Listed Companies.

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

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

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

1. Amended Policy on Related Party Transactions;
2. Whistle-Blowing Policy;
3. Code of Conduct for Directors and Senior Management;
4. Anti-Money Laundering Manual;
5. Data Privacy Policy; and
6. Sustainability Report.

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

ATTENTION :

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

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaue, Cebu on August 26, 2020.

METRO RETAIL STORES GROUP, INC.

By:


ATTY. VINCENT E. TOMANENG
*Corporate Secretary and
Chief Legal Counsel*


ATTY. TARA / TSARINA B. PEREZ-RETUYA
*Asst. Corporate Secretary and
Compliance Officer*

PART I BUSINESS AND GENERAL INFORMATION

Item 1 Business

(A) Business Development

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

As of end of 2019, we had a total of twelve (12) stores in Metro Manila and twelve (12) stores in other parts of Luzon with a total net selling space of approximately 133,765 sqm.

In addition, we have a total of thirty-three (33) stores in the Visayas, with a total net selling space of approximately 101,128 sqm. This brings our total store count in the Philippines to fifty-seven (57), with a total net selling space of 234,893 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 30 supermarkets in the Visayas, Metro Manila, and the rest of Luzon. As of end of 2019, Metro Supermarket had a total net selling space of approximately 50,273 sqm and an average net selling space of 1,676 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 2019, we had 14 department stores in strategic locations throughout the country, with a total net selling space of 138,831 sqm and an average net selling space per store of 9,916 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 17 warehouses nationwide (6 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 85% of our fleet capacity nationwide. Our in-house trucks are GPS enabled. The balance 15% of our fleet requirements is covered by third party truck providers.

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

Our key strategic initiatives are as follows in order to:

1. Support our aggressive network expansion, we will put in place one Distribution Center (“DC”) in Luzon to cover all Luzon stores and one DC in Cebu to cover Visayas stores. The go-live of these DC’s will be dependent on the land conversion, warehouse construction and necessary fittings installations. The DC will cover both storage and cross docking operations for dry, chilled, cold and fresh operations;
2. Support our outright model and rise of direct importation, we will obtain all necessary regulatory licenses and permits to import, warehouse, transport and distribute our foreign goods assortment via the import company that we use. Furthermore we will demonstrate improved velocity in terms of releasing from the Bureau of Customs, warehouse receipt and distribution of these imported items to the stores;
3. Support our aggressive introduction of private brands and labels, we will obtain all necessary regulatory licenses and permits to procure, warehouse, transport and distribute via MRSGI;
4. Support our campaign on End to End Supply Chain Food Safety promise to our consumers- we are going to put in place a food safety program from suppliers (Good Agricultural and Manufacturing Practices), to warehouses & transport (Good Warehouse and Distribution Practices) unto our stores (Good Retail Practices) consistent with the internal standards of Code Alimentaire. We will continue to pass the HACCP (Hazard analysis and critical control points) surveillance audit for Metro Alabang and endeavor to obtain the appropriate HACCP accreditation for Metro Market Market and Metro Ayala;
5. Support our sales target through product availability, we will further demonstrate breakthrough performance with regards to our ability to service store orders on time, in full, right quality and no documentation errors. We will support our institutional customers with the fit-for-purpose distribution model that they will require;
6. Support our profit targets through putting in place productivity programs to be able to handle more products with lesser resources required, and drive cost saving initiatives in controllable operating expenses of the operations. Furthermore, we will ensure inventory record accuracy and minimize shrinkages in our operations.

c. New products and services

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

d. Competition

The Philippine food retail market has become increasingly competitive in recent years. We compete with both traditional stores and modern retail operators, including hypermarkets, supermarkets, convenience stores and local grocery stores, on the basis of location, shopping experience, presentation, price, supply chain and additional benefits such as loyalty programs. SM 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 1,800 regular suppliers in 2019, Metro Supermarket's supplier base is diversified between local suppliers such as Monde Nissin Corporation, Universal Robina Corporation, and San Miguel Pure Foods Company, Inc. 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 21% of its net sales in 2019. 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 1,600 regular suppliers in 2019, Metro Department Store's supplier base includes suppliers such as Finden Technologies Inc., Skies Merchandise Sales Corporation, Multiflex RNC Phils., Inc., Goldnines International Co. Ltd., and Atlas Home Products, Inc. Metro Department Store's top five suppliers together accounted for approximately 7.0% of its net sales in 2019. 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, Monde Nissin Corporation and Procter & Gamble Philippines Inc. are among the biggest suppliers of our hypermarket retail format. Super Metro's top five suppliers together accounted for approximately 17% of its net sales in 2019. 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 only 14% of its net sales in 2019. 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, 2019.

Store Operation	5,499
Warehouse Operation	814
Corporate	773
Total	7,086

We believe that we have a good relationship with our employees. We have always placed a high value on training and retention, as demonstrated by the fact that approximately 15% 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 2019, we had fifteen (15) stores in third-party malls. There can be no assurance that these companies will continue to grow at a rate that is consistent with our planned rate of growth. In addition, there can be no assurance that we will continue to be able to obtain “anchor tenant” status or spaces in new malls or township projects, on terms acceptable to us or at all. Generally, because of its ability to draw more customers to a particular shopping center, an anchor tenant has more flexibility in negotiating the terms of its lease contract. Due to the increased competition for desirable store sites, we may not be able to lease appropriate real estate for our new store locations, on terms and conditions acceptable to us or at all.

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

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

We are exposed to inventory risks.

Outright sales accounted for over 70% of our net sales for the year ended December 31, 2019 and 2018. 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 99.2% of our revenue in 2018 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 14% of our net sales for 2018. 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 2018, we leased all of our net selling space and all of our distribution centers. Approximately 75% of our sites are leased from related parties and 25% are leased from third parties. There is no assurance that we will be able to renew our leases on acceptable terms and conditions or at all upon their expiry. Leases of store premises in large shopping centers may not be available for extension because landlords may decide to change tenants for better commercial arrangements. There is no assurance that we will be able to enter into such new agreements with third parties on terms and conditions that are acceptable to us or at all, and our failure to do so may materially and adversely affect our business, financial condition and results of operations.

Moreover, if rent prices increase significantly throughout the Philippines, or in a particular region, it may cease to be economical to lease stores and we may have to discontinue operations at some of our stores. Any inability to renew leases as they expire or acquire new leases in other favorable locations and sites on acceptable terms and conditions, termination of the existing leases, or revision of the terms and conditions of leases to our detriment may have an adverse effect on our business, financial

condition and results of operations. Further, a number of our landlords are normally granted the right to terminate the leases for cause prior to their expiration. In the event that any of our leases are terminated for any reason prior to their expiration, we will need to either close our operations at such locations or relocate to alternative premises. Relocation of any of our operations may cause disruptions to our business and may require significant expenditure, and we cannot assure that we will be able to find suitable premises on acceptable terms and conditions or at all in a timely manner.

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

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

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

As a means of fulfilling some of our labor requirements, a significant portion of our workforce is outsourced through third-party manpower agencies. Outsourcing carries with it certain inherent risks including potential litigation from the employees of our third-party manpower service providers who may claim an employer-employee relationship with us; and the risk that the current arrangements we currently have in place are later on found by the Department of Labor and Employment to be “labor-only contracting” which would have the consequence of effectively making us the employer of the relevant employees and thus, obliging us to extend to the relevant employees the same salaries and benefits we extend to our regular employees, which could have a significant impact on our labor costs. As the principal in the outsourcing arrangement, we can also be held jointly and severally liable with our third-party manpower service providers to the latter’s employees for unpaid wages for work performed under their respective contracts, or for any violation by our manpower service providers of the provisions of the Labor Code.

We are party to a number of related party transactions.

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

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

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

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

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

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

Our business and operations are dependent upon key executives.

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

Item 2 Legal Proceedings

As of December 31, 2019, 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)	2017	3.56	4.48
April – June (Q2)	2017	3.56	4.95
July – September (Q3)	2017	3.78	5.30
October – December (Q4)	2017	3.79	4.30
January – March (Q1)	2018	3.23	3.95
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 – August (Q3)	2020	1.65	1.30

On August 27, 2020, the Company's shares closed at Php 1.43 per share.

(B) Holders

The number of shareholders of record as of August 27, 2020 was twenty three (23). Common shares outstanding as of August 27, 2020 were 3,429,375,000.

List of Stockholders of Record as of August 27, 2020

	Name of Stockholder	Number of Shares	Percentage to Total Outstanding
1	Vicsal Development Corporation	2,627,427,300	76.62%
2	PCD Nominee Corp. (Filipino)	630,099,062	18.37%
3	PCD Nominee Corp. (Non-Filipino)	146,777,660	4.28%
4	Valueshop Stores, Inc.	24,801,489	0.72%
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	3,429,375,000	

(C) Dividends

Dividend Policy

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

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

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

Dividend History

The tables below set out the dividends declared during 2016, 2017, 2018, 2019 and 2020:

Cash Dividend				
Year	Amount Declared	Dividend Per Share	Recorded Date	Payment Date
2016	P154,321,875.00	P0.045	April 4, 2016	April 20, 2016
2017	P171,468,750.00	P0.05	April 3, 2017	May 2, 2017
2018	P205,762,500.00	P0.06	April 13, 2018	May 2, 2018
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, 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 % Increase/(Decrease)	
	As reported	Before PFRS 16	Effect of adoption		As reported	Before PFRS 16
REVENUE						
Net Sales	36,790.2	36,790.1	–	33,050.1	11.3%	11.3%
Rentals	255.8	255.8	–	233.7	9.5%	9.5%
	<u>37,046.0</u>	<u>37,045.9</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	<u>1,063.3</u>	<u>994.6</u>	<u>68.6</u>	<u>875.0</u>	<u>21.5%</u>	<u>13.7%</u>
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	<u>1,165.1</u>	<u>1,684.6</u>	<u>(519.6)</u>	<u>1,346.6</u>	<u>-13.5%</u>	<u>25.1%</u>
Provision for income tax	<u>389.4</u>	<u>545.3</u>	<u>(155.9)</u>	<u>381.2</u>	<u>2.15%</u>	<u>43.0%</u>
Net income	<u>775.7</u>	<u>1,139.3</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 9.5% 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.

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

Revenue

Net sales

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

Rental income

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

Costs and expenses

Cost of sales

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

Operating expenses

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

Interest and other income

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

Finance costs

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

Provision for income tax

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

Net income

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

Financial Position

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 ₱1,149.1 million, merchandise inventories totaled ₱4,636.6 million and other current assets totaled ₱491.6 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.

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

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,273.4 million and ₱4,788.1 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,660.0 million and ₱8,973.7 million, respectively. The increase of 7.6% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments and receivables.

As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱878.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱316.7 million. As of December 31, 2016, short-term investment totaled ₱525.0 million, receivables totaled ₱846.3 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱280.7 million.

As of December 31, 2017, cash and cash equivalents amounted to ₱3,707.2 million, an increase of 12.1% from ₱3,307.0 million as of December 31, 2016. The increase were mainly attributable to ₱1,349.5 million generated from operation activities and were offset by the increase of short-term

investments by ₱230.2 million, addition to property and equipment amounting to ₱446.3 million and dividends payment amounting to ₱171.5 million.

Current Liabilities

Total current liabilities as of December 31, 2017 and December 31, 2016 were ₱4,386.0 million and ₱4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱4,167.9 million and ₱3,940.9 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,		
	2019	2018	2017
	(P million)		
Net cash flows generated from operating activities	P3,297.7	P1,450.2	P1,349.5
Net cash flows used in investing activities	(2,480.2)	(1,352.2)	(763.0)
Net cash flows used in financing activities	(1,506.1)	(219.6)	(202.6)
Net increase in cash	<u>(P688.6)</u>	<u>(P121.6)</u>	<u>P383.9</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 increase 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, 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 P127.4 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 P103.2 million, respectively.

Our net cash flows generated from operating activities for the year ended December 31, 2017 was P1,349.5 million, which comprised operating income before working capital changes of P1,992.5 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in receivables, other current assets and trade and other payables and decrease in noncurrent liabilities.

Net cash flows used in investing activities

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.

For the year ended December 31, 2017, net cash flows used in investing activities was ₱763.0 million, which resulted from the increase in short-term investment by ₱230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱446.3 million and increase in other non-current assets by ₱86.5 million.

Net cash flows used in financing activities

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.

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

Indebtedness

We have nil outstanding loans as of December 31, 2019, 2018 and 2017.

Key Performance Indicators

	For the years ended December 31,		
	2019	2018	2017
The Company			
Net Sales ⁽¹⁾ (₱ millions)	36,790.2	33,050.1	35,015.7
Average Basket Size ⁽²⁾ (₱)	622.5	590.2	594.5
Same store sales growth ⁽³⁾ (%)	2.2%	5.1%*	-0.7%
Number of Stores	57*	53*	52
Net selling area ⁽⁴⁾ (sqm)	234,893	194,536	228,980

*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 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 26 of the notes to our audited financial statements.

Liquidity risk

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

Credit Risk

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

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

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

Item 6 Financial Statements and Supplementary Schedules

The financial statements are filed as part of this report.

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

(A) External Audit Fees and Services

Audit and Audit - Related Fees

(B) External Audit Fees and Services

Please refer to page 18-19 of the SEC Form 20-IS.

PART III CONTROL AND COMPENSATION INFORMATION

Item 8 Directors and Executive Officers of the Issuer

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

Please refer to pages 7-9 of the SEC Form 20-IS.

(B) Significant Employees

Please refer to page 13 of the SEC Form 20-IS.

(C) Family Relationships

Please refer to page 13 of the SEC Form 20-IS.

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

Please refer to page 13 of the SEC Form 20-IS.

Item 9 Executive Compensation

Please refer to pages 15-17 of the SEC Form 20-IS.

Item 10. Security Ownership of Certain Beneficial Owners and Management

Please refer to pages 4-5 of the SEC Form 20-IS.

Item 11. Certain Relationships and Related Transactions

Please refer to Note 21 of the Financial Statements for the Related Party Transactions.

PART IV CORPORATE GOVERNANCE

Item 12. Corporate Governance

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

PART V EXHIBITS AND SCHEDULES

Item 13 Exhibits and Reports on SEC Form 17-C

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

List of Corporate Disclosures/Replies to SEC Letters Under SEC Form 17-C January 1,-December 31, 2019	
DATE	SUBJECT
March 18, 2019	Approval of cash dividends amounting to Php 205,762,500

Item 14 Use of Proceeds

Please refer to the Company's Disbursement of Proceeds and Progress Report duly certified by the Company's external Auditor.

MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING

Mandani Bay Show Gallery,
Mandani Bay Avenue corner F.E. Zuellig Avenue, Mandaue City, Cebu,
Held on May 3, 2019 at 8:30 AM

Stockholders Present

No. of Outstanding and Voting Shares: 2,604,292,701
Percentage of Total: 75.94%

Directors Present

Mr. Frank S. Gaisano	Chairman of the Board and Chief Executive Officer
Mr. Manuel C. Alberto	President and Chief Operating Officer
Ms. Margaret G. Ang	Director
Mr. Edward S. Gaisano	Director
Mr. Jack S. Gaisano	Director
Mr. Guillermo L. Parayno, Jr.	Independent Director
Mr. Ricardo Nicanor N. Jacinto	Independent Director

Officers Present

Mr. Joselito G. Orense	Treasurer and Chief Financial Officer
Atty. Vincent E. Tomaneng	Corporate Secretary and Chief Legal Counsel
Atty. Tara Tsarina B. Perez-Retuya	Assistant Corporate Secretary and Compliance Officer

1. Call to Order

The Metro Retail Stores Group, Inc. ("MRSGI" or the "Corporation") Annual Stockholders' Meeting was called to order by the Chairman and Chief Executive Officer, Mr. Frank S. Gaisano. He welcomed the stockholders, investors, officers, and guests to the Corporation's Annual Stockholders' Meeting for 2019.

2. Proof of Notice of the Meeting and Existence of Quorum

The Corporate Secretary, Atty. Vincent E. Tomaneng, certified that written notices of the time,



date, place, and purpose of the Annual Stockholders' Meeting were sent out to all stockholders of record as of April 1, 2019. The said notice was also published on April 5, 2019 in the Manila Bulletin, a newspaper of general circulation in the Philippines.

Of the 3,429,375,000 outstanding common shares of MRSGL as of record date, April 1, 2019, a total of 2,604,292,701 shares or 75.94% thereof were present in person or were represented by proxies. The Corporate Secretary certified that there was a quorum for the transaction of all matters in the agenda.

3. Chairman's Message

The Chairman, Mr. Frank S. Gaisano, started his speech by welcoming the attendees to the 2019 Annual Stockholders' Meeting of MRSGL, and proceeded to report to the stockholders of MRSGL's accomplishments for the year 2018, to wit:

1. Year-end net profit of P965.4 million despite the fire that burned the flagship store in Ayala Center Cebu at the beginning of the year;
2. Steady same store sales growth of 5.1% and 110 basis points improvement in same store gross profit margins versus 2017;
3. Broke ground for Super Metro Hypermarket in Leyte and opened Metro Department Store and Supermarket at Ayala Malls Feliz in Pasig City and at Ayala Capitol in Bacolod City;
4. Total of 54 stores across Luzon and the Visayas as of present;
5. Entered into a joint venture agreement with the Province of Samar to develop a mixed use property to house another Metro Department Store and Supermarket; and
6. Re-opening of Metro Ayala Center Cebu Supermarket in December 2018.

The Chairman also informed the stockholders of MRSGL's commitments for the year 2019, such as:

1. Focus on building on its current business, and staying at the competitive forefront of retail shopping excellence;
2. Complete the restoration of the Metro Department Store in Ayala Center Cebu by the end of 2019; and
3. Continue MRSGL's corporate social responsibility by opening up employment opportunities, contributing to locales' economic activities, and driving various social responsibility programs in the communities where MRSGL is present.

Finally, the Chairman expressed his gratitude to the stockholders, the Board of Directors, business partners, and customers for their continued faith and support in MRSGL.

4. Voting Procedures

For agenda items that required the shareholders' approval, the Corporation has engaged the services of RCBC Stock Transfer Department to verify, validate and certify the voting results of the Annual Stockholders' Meeting.

Proxy forms were sent out to all stockholders of record as of April 1, 2019 together with the Notice and Agenda for the Annual Stockholders Meeting. The Stockholders were provided with the ballots for them to vote on the items requiring the approval of the Stockholders. The ballots

were then collected prior to the start of the meeting and the votes were counted and verified by the representatives from RCBC.

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

5. Reading and Approval of the Minutes of the Annual Meeting of the Stockholders held on May 4, 2018

The Chairman proceeded with the approval of the minutes of the Annual Stockholders' Meeting held on May 4, 2018. The Corporate Secretary certified that the stockholders were provided with copies of the said minutes prior to the meeting. Upon motion made and duly seconded, the reading of the minutes was dispensed with. Thereafter, the Chairman asked if there were any questions on the minutes of the previous stockholders' meeting. Since none was raised, the Chairman then confirmed the shareholders' approval on the matter as follows:

Resolution No. S01-19

"**RESOLVED**, that the minutes of the previous Annual Stockholders' Meeting of Metro Retail Stores Group, Inc. held last May 4, 2018, be approved as it is hereby approved in toto."

Vote	Number of Votes (One share-One vote)	Percentage of Shares Represented
Approve	2,604,139,690	75.94%
Disapprove	0	0%
Abstain	0	0%

6. President's Message

The Corporation's President and Chief Operating Officer, Mr. Manuel C. Alberto, also reported on the accomplishments of MRS GI for 2018 as follows:

1. Year-end net profit of ₱965.4 million;
2. Steady growth of 200 basis points in gross profit margins for the last two years;
3. Setting up of a temporary Metro Supermarket in a 900 sqm space at the ground floor of Ayala Center Cebu just after a few months after the fire incident which burned the store early January 2018;
4. Growth in store network, ending 2018 with 53 stores covering 434,364 sqm gross floor area; and

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- Received the Citations for Good Manufacturing Practice, or GMP, and the Hazard Analysis and Critical Control Points, or HACCP, from SGS Philippines.

Mr. Alberto recognized the Corporation's partners, shareholders, employees, and founders and leaders, who helped in making MRSGI a leading multi-format retailer in the country.

Mr. Alberto emphasized 2019's theme of *Growth through Operational Excellence and Quality Customer Service*, harping on MRSGI's core competencies as a retailer, with the following commitments:

- To be responsive to the changing demands and lifestyles of its customers;
- Keep the stores above par, ensuring that we offer the best variety, quality and value while upholding the good practices in manufacturing, supply chain management and safety;
- Deploy long-term improvements in work processes, streamlining for more efficiency, competency and agility, while putting to work effective cost-cutting, resource management and overall retail strategies; and
- Open more stores to expand our market.

7. Management Report and Approval of the Annual Report and the Audited Financial Statements for CY 2018

The Chairman continued by calling on MRSGI's Treasurer and Chief Financial Officer, Mr. Joselito G. Orense, to present the highlights of the Annual Report and the results of operations and the financial position of the Corporation. Mr. Orense started by discussing the financial highlights of MRSGI for the year 2018. He then reported on the results of MRSGI operations for the period ended December 31, 2018. He further reported the statement of financial position as of December 31, 2018. He ended the presentation by sharing the Corporation's key financial ratios for 2018. Mr. Orense then asked if there were any questions, and there being none, he relinquished the floor back to the Chairman. The Chairman asked if the shareholders have approved on the matter which the Corporate Secretary affirmed. There being no objection on the motion duly made and seconded, the following resolution is hereby approved:

Resolution No. S02-19

"**RESOLVED**, that the Annual Report and the Audited Financial Statements of Metro Retail Stores Group, Inc. for the period ended December 31, 2018, as audited by the Corporation's external auditor, SyCip Gorres Velayo & Co, be approved as it is hereby approved."

Vote	Number of Votes (One share-One vote)	Percentage of Shares Represented
Approve	2,601,874,690	75.87%
Disapprove	0	0%
Abstain	2,265,000	0.07%

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8. Appointment of SyCip Gorres Velayo & Co. as External Auditor of the Corporation for the year 2019

The Chairman called on Mr. Guillermo L. Parayno Jr., Chairman of MRSGI's Audit and Risk Committee, to announce the firm nominated as the Corporation's external auditor for the year ending December 31, 2019.

Mr. Parayno then nominated and requested for approval on the appointment of the firm Sycip Gorres Velayo & Co. as MRSGI's external auditor for the year ending December 31, 2019. The Chairman asked the Corporate Secretary if the resolution has been approved by the shareholders. The Corporate Secretary disclosed the number of votes in favor of the agenda item as validated by the representatives from RCBC. Since there was no objection on the motion made and duly seconded, the following resolution has been approved:

Resolution No. S03-19

"RESOLVED, to approve the appointment of SyCip Gorres Velayo & Co. as the external auditor of Metro Retail Stores Group, Inc. (the "Corporation") for the year 2019, as endorsed by the Corporation's Audit and Risk Committee."

Vote	Number of Votes (One share-One vote)	Percentage of Shares Represented
Approve	2,604,139,690	75.94%
Disapprove	0	0%
Abstain	0	0%

9. Ratification and Approval of Previous Acts of the Directors, Committees, Officers, and Management of the Corporation

The Chairman advised the stockholders that the next item on the agenda is the approval and confirmation of all acts, resolutions, and proceedings of the Board of Directors, its Committees, Officers, and Management in the exercise of their duties and responsibilities for the period from May 4, 2018 until May 3, 2019.

There being no objections on motion duly made and seconded, the shareholders approved the following resolution:

Resolution No. S04-19

"RESOLVED, to approve all acts and resolutions of the Board of Directors and its committees, officers, and management of Metro Retail Stores Group, Inc., since the last annual stockholders' meeting up to the date of this meeting."

Vote	Number of Votes (One share-One vote)	Percentage of Shares Represented
Approve	2,601,874,690	75.87%
Disapprove	0	0%
Abstain	2,265,000	0.07%

10. Election of Directors

The next item in the agenda was the election of seven (7) members of the Board to fill up the seven (7) seats of the Board of Directors as provided in the Articles of Incorporation of the Corporation, who shall occupy their respective positions for one year and until their successors are duly elected and qualified. The Chairman requested the Corporate Secretary to read out the nominees for the current year's Board of Directors.

The Corporate Secretary explained that in accordance with the previously sent proxy statement and the Corporation's Amended Manual on Corporate Governance, the following were the individuals pre-screened, and determined to be qualified to be elected as members of the Board in accordance with the Corporation's By-Laws, and named in the Final List of Candidates for Directors submitted by the Nomination and Compensation Committee:

1. Mr. Frank S. Gaisano
2. Mr. Manuel C. Alberto
3. Ms. Margaret G. Ang
4. Mr. Jack S. Gaisano
5. Mr. Edward S. Gaisano
6. Mr. Ricardo Nicanor N. Jacinto
7. Mr. Guillermo L. Parayno, Jr.

There being no other nominees for the Board, the nominations for the directorship of MRS GI were closed. Thus, the Chairman formally announced all the seven (7) nominees as the duly elected Directors of MRS GI for the ensuing year and until their successors are duly elected and qualified, after the following resolution was passed:

Resolution No. S05-19

"RESOLVED, to elect the following directors of the Corporation to serve as such beginning today until their successors are duly elected and qualified:

- 1.) Frank S. Gaisano
- 2.) Manuel C. Alberto
- 3.) Margaret G. Ang
- 4.) Jack S. Gaisano
- 5.) Edward S. Gaisano
- 6.) Ricardo Nicanor N. Jacinto – Independent Director
- 7.) Guillermo L. Parayno, Jr. – Independent Director"

Messrs. Jacinto and Parayno were elected as independent directors in accordance with the rules of the Securities and Exchange Commission on the requirements on nomination and election of independent directors.

The Corporate Secretary recorded the votes for this agenda item, as verified by the representatives from RCBC, as follows:

	Approve	Disapprove	Abstain
Frank S. Gaisano	2,601,751,890	2,387,800	0
% of Shares Voted	75.87%	0.07%	0%
Manuel C. Alberto	2,586,271,590	17,868,100	0
% of Shares Voted	75.42%	0.52%	0%
Margaret G. Ang	2,584,594,790	19,544,900	0
% of Shares Voted	75.37%	0.57%	0%
Jack S. Gaisano	2,586,271,590	17,868,100	0
% of Shares Voted	75.42%	0.52%	0%
Edward S. Gaisano	2,586,271,590	17,868,100	0
% of Shares Voted	75.42%	0.52%	0%
Ricardo Nicanor N. Jacinto (Independent Director)	2,604,139,690	-	0
% of Shares Voted	75.94%	-	0%
Guillermo L. Parayno, Jr. (Independent Director)	2,604,139,690	-	0
% of Shares Voted	75.94%	-	0%

11. Other Matters

The Chairman then proceeded to open the floor for the transaction of other matters. The Corporate Secretary stated that there was nothing of particular importance that the Board has conveyed to discuss.

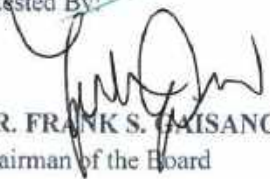
12. Adjournment

There being no other matters raised by the shareholders, upon motion duly made and seconded, the meeting was thereupon adjourned.

Prepared by:


ATTY. VINCENT E. TOMANENG
 Corporate Secretary

Attested By:


MR. FRANK S. GAISANO
 Chairman of the Board



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

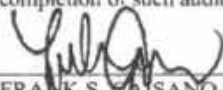
The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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.

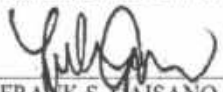
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to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

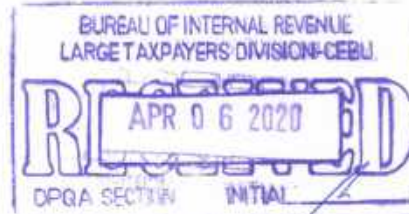
Sycip Gorres Velayo and Co. (SGV), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of the presentation 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 18, 2020



SUBSCRIBED AND SWORN to before me this MAR 26 2020 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano			DFA NCR South
Joselito G. Orense			DFA NCR South

Doc. No. 199
Page No. 4
Book No. 618
Series of 2020


VINCENT E. TOMANENG
NOTARY PUBLIC FOR CEBU CITY
COMMISSION UNTIL DEC. 31, 2020
ROLL OF ATTORNEY NO. 39448
IBP LIFETIME NO. 1829091, CEBU CITY
PTR NO. 1574548 1/7/20 CEBU CITY
MCLE COMPLIANCE NO. VI-0011298
SUITE 210 2ND FLOOR THE WALK, CEBU IT PARK
LUNGGU, CEBU CITY

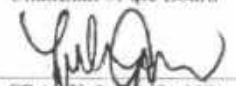
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

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, 2019. 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, 2019 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. GASANO
Chairman of the Board


FRANK S. GASANO
Chief Executive Officer


JOSELYTO G. ORENSE
Chief Financial Officer

March 18, 2020



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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 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.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Company adopted Philippine Financial Reporting Standard (PFRS) 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Company's accounting policy for leases. The Company's adoption of PFRS 16 is significant to our audit because the Company has high volume of lease agreements; the recorded amounts are material to the financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Company is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to ₱8,259.01 million and ₱8,044.06 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱1,241.45 million and ₱590.15 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 2 to the financial statements.

Audit response

We obtained an understanding of the Company's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by comparing the number of locations per operations report against lease contract listing of the Company.

On a test basis, we inspected lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Company will exercise the option to renew or not exercise the option to terminate.



We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and other disclosures as required by PFRS 16.

Existence and completeness of merchandise inventories

The Company's inventories comprise 20% of its total assets as at December 31, 2019. The Company operates 58 stores (consisting of department stores, supermarkets and hypermarkets) and 9 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 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, 2019, 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, 2019 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 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 Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Retail Stores Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is 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

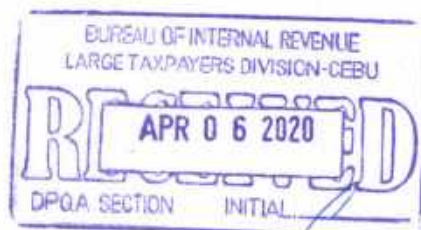
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

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

PTR No. 8125272, January 7, 2020, Makati City

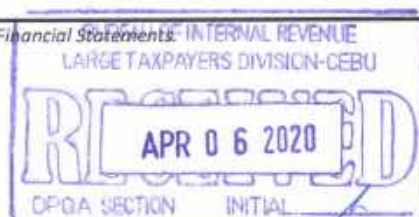
March 18, 2020



METRO RETAIL STORES GROUP, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	P2,909,123,300	P3,606,179,404
Short-term investments (Notes 5 and 26)	629,574,974	358,438,404
Receivables (Notes 6 and 26)	1,149,127,596	1,371,593,749
Merchandise inventories (Note 7)	4,636,576,270	3,589,605,171
Other current assets (Note 8)	491,626,178	495,107,374
Total Current Assets	9,816,028,318	9,420,924,102
Noncurrent Assets		
Property and equipment (Note 9)	4,700,483,138	3,286,048,181
Right-of-use assets (Note 23)	7,512,796,866	-
Deferred tax assets - net (Note 22)	309,275,514	152,995,229
Other noncurrent assets (Note 10)	1,026,033,995	1,008,491,592
Total Noncurrent Assets	13,548,589,513	4,447,535,002
TOTAL ASSETS	P23,364,617,831	P13,868,459,104
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 26)	P5,409,499,852	P4,392,287,409
Contract liabilities (Note 12)	103,525,837	103,195,660
Income tax payable	230,178,863	158,339,929
Lease liabilities - current portion (Notes 23 and 26)	949,045,108	-
Finance lease liability - current portion (Notes 23 and 26)	-	36,744,720
Total Current Liabilities	6,692,249,660	4,690,567,718
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 23 and 26)	6,870,042,722	-
Finance lease liability - net of current portion (Notes 23 and 26)	-	28,648,744
Retirement benefit obligation (Note 20)	500,623,022	393,006,901
Other noncurrent liabilities (Note 13)	65,737,958	53,216,403
Total Noncurrent Liabilities	7,436,403,702	474,872,048
Total Liabilities	14,128,653,362	5,165,439,766
Equity		
Capital stock (Note 14)	3,429,375,000	3,429,375,000
Additional paid-in capital (Note 14)	2,455,542,149	2,455,542,149
Retained earnings (Note 14)	3,345,357,261	2,775,475,030
Remeasurement gains on defined benefit obligation (Note 20)	5,690,059	42,627,159
Total Equity	9,235,964,469	8,703,019,338
TOTAL LIABILITIES AND EQUITY	P23,364,617,831	P13,868,459,104

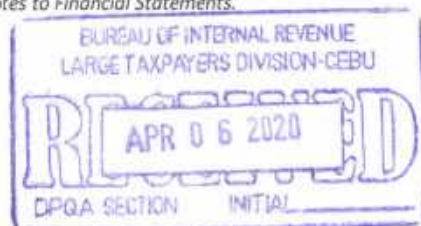
See accompanying Notes to Financial Statements



METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Net sales (Note 15)	P36,790,177,798	P33,050,084,154	P35,015,740,598
Rentals (Notes 21 and 23)	255,810,221	233,751,621	299,880,342
	37,045,988,019	33,283,835,775	35,315,620,940
COSTS AND EXPENSES			
Cost of sales (Note 17)	28,592,544,037	25,650,018,422	27,443,433,483
Operating expenses (Note 18)	7,390,186,363	6,758,799,769	6,596,907,791
	35,982,730,400	32,408,818,191	34,040,341,274
OPERATING INCOME	1,063,257,619	875,017,584	1,275,279,666
OTHER INCOME (CHARGES) (Note 16)			
Interest and other income	709,303,783	490,605,042	138,020,790
Finance costs	(607,483,396)	(19,041,131)	(17,576,617)
	101,820,387	471,563,911	120,444,173
INCOME BEFORE INCOME TAX	1,165,078,006	1,346,581,495	1,395,723,839
PROVISION FOR INCOME TAX (Note 22)			
Current	529,883,374	384,326,979	451,008,374
Deferred	(140,450,099)	(3,123,004)	(32,241,844)
	389,433,275	381,203,975	418,766,530
NET INCOME	775,644,731	965,377,520	976,957,309
OTHER COMPREHENSIVE (LOSS) INCOME			
<i>Not to be reclassified to profit or loss in subsequent periods</i>			
Remeasurement (losses) gains on defined benefit obligation (Note 20)	(52,767,286)	199,860	(10,669,847)
Income tax effect (Note 22)	15,830,186	(59,958)	3,200,954
	(36,937,100)	139,902	(7,468,893)
TOTAL COMPREHENSIVE INCOME	P738,707,631	P965,517,422	P969,488,416
Basic/Diluted Earnings Per Share (Note 24)	P0.23	P0.28	P0.28

See accompanying Notes to Financial Statements.





METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2019, 2018 and 2017

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 20)	Total
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 14)	-	-	(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 14)	-	-	(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
Balances at January 1, 2017	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750
Net income for the year	-	-	976,957,309	-	976,957,309
Other comprehensive loss	-	-	-	(7,468,893)	(7,468,893)
Total comprehensive income	-	-	976,957,309	(7,468,893)	969,488,416
Declaration of dividends (Note 14)	-	-	(171,468,750)	-	(171,468,750)
Balances at December 31, 2017	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416

See accompanying Notes to Financial Statements.

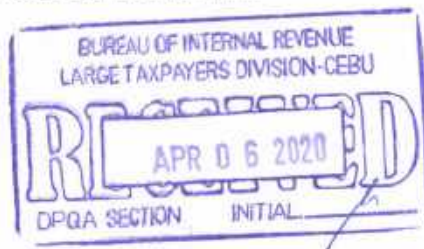


METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,165,078,006	₱1,346,581,495	₱1,395,723,839
Adjustments for:			
Depreciation - ROU assets (Note 23)	1,241,452,884	-	-
Depreciation and amortization - PPE (Note 9)	480,904,170	490,362,102	519,524,410
Finance costs (Notes 11 and 23)	607,483,396	19,041,131	17,576,617
Net gain on insurance claims (Notes 6, 7, 9 and 16)	(538,743,310)	(350,681,819)	-
Interest income (Note 16)	(101,905,155)	(75,072,483)	(55,627,487)
Retirement benefits costs (Note 20)	58,373,098	47,134,866	36,352,996
Foreign currency exchange losses (gains) (Note 16)	8,451,855	(20,721,700)	(16,345,152)
Provision for impairment of assets (Notes 8, 9, and 10)	6,226,119	26,859,905	64,977,300
Write off of assets	4,662,102	11,344,445	4,729,610
Loss on retirement of property and equipment (Note 9)	2,999,513	25,804	31,518
Provision for probable loss (Notes 11 and 18)	-	-	23,467,777
Provision for impairment of receivables (Note 6)	-	-	2,124,156
Reversal of impairment loss (Note 9)	-	(155,972)	-
Operating income before working capital changes	2,934,982,678	1,494,717,774	1,992,535,684
Decrease (increase) in:			
Receivables	(127,412,928)	(44,069,074)	(39,000,629)
Merchandise inventories	(1,046,971,099)	112,403,617	12,231,756
Other current assets	(880,141)	(184,399,088)	(81,542,027)
Increase (decrease) in:			
Trade and other payables	1,016,713,991	221,712,387	200,202,890
Contract liabilities	330,177	103,195,660	-
Other noncurrent liabilities	12,521,555	(413,808)	(311,488,228)
Cash flows generated from operations	2,789,284,233	1,703,147,468	1,772,939,446
Proceeds from insurance claims on merchandise inventory and business interruption	890,004,510	111,323,800	-
Income tax paid	(458,044,440)	(416,041,698)	(463,314,481)
Interest received	96,819,732	75,739,031	55,609,537
Interest paid	(16,835,233)	(16,348,371)	(14,270,100)
Retirement benefits paid	(3,524,263)	(7,635,456)	(1,464,085)
Net cash provided by operating activities	3,297,704,539	1,450,184,774	1,349,500,317
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 9)	(1,942,356,492)	(1,447,741,077)	(446,290,592)
Decrease (increase) in short-term investments	(271,136,570)	396,765,867	(230,204,271)
Proceeds from insurance claims on property, plant and equipment (Note 9)	-	133,408,200	-
Increase in other noncurrent assets	(266,733,530)	(434,681,564)	(86,547,605)
Net cash used in investing activities	(2,480,226,592)	(1,352,248,574)	(763,042,468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of:			
Principal portion of lease liabilities (Note 23)	(710,169,984)	-	-
Interest portion of lease liabilities (Note 23)	(590,149,820)	-	-
Cash dividends (Note 14)	(205,762,392)	(205,754,341)	(171,468,750)
Finance lease liability (Note 23)	-	(13,876,863)	(31,133,701)
Net cash used in financing activities	(1,506,082,196)	(219,631,204)	(202,602,451)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(688,604,249)	(121,695,004)	383,855,398
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 16)	(8,451,855)	20,721,700	16,345,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,606,179,404	3,707,152,708	3,306,952,158
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱2,909,123,300	₱3,606,179,404	₱3,707,152,708

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 with a corporate life of 50 years. 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 14).

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.

On February 18, 2019, MRSGI signed a Joint Venture Agreement with the Provincial Government of Samar for the development, construction and operation of a commercial business and government center to be erected at Barangay 07, Poblacion, Catbalogan City, Samar. As of December 31, 2019, there are no significant updates on this project.

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were approved and authorized for issue by the Board of Directors (BOD) on March 18, 2020.

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

Basis of Preparation

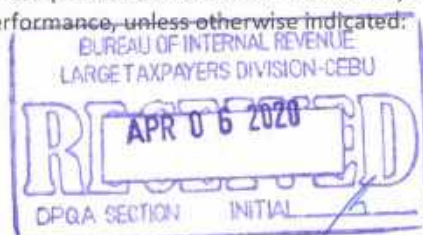
The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱), which is the Company's functional currency. Amounts are rounded off to the nearest Philippine Peso, except where otherwise indicated.

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, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.



- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

	Increase/ (decrease)
<u>Statement of financial position:</u>	
Property, plant and equipment – net	(₱67,746,362)
Right-of-use assets (Note 23)	8,259,006,483
Other assets*	(212,591,666)
Lease liabilities (Note 23)	8,044,061,918
Finance lease liability	(65,393,463)

**Pertains to Prepayments included under "Other current assets" and Deposits and Deferred charges included under "Other noncurrent assets"*

Set out below, are the amounts by which each financial statement line item is affected as of and for the year ended December 31, 2019 as a result of the adoption of PFRS 16:

Statement of comprehensive income:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Rental	₱492,153,089	₱1,802,189,798	(₱1,310,036,709)
Depreciation and amortization	1,721,709,572	480,256,688	1,241,452,884
Finance costs	607,483,396	19,276,829	588,206,567*
Net income	775,644,732	1,139,380,651	(363,735,919)

**Exclusive of the finance costs arising from the finance lease liability amounting to P1.94 million which did not change upon adoption of PFRS 16.*



Statement of financial position:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Property, plant and equipment	₱4,700,483,138	₱ 4,741,460,652	(₱40,977,514)
Right-of-use assets, net of accumulated depreciation	7,512,796,866	-	7,512,796,866
Other assets*	1,517,660,173	1,730,274,231	(212,614,058)
Deferred tax assets - net	309,275,514	157,715,051	151,560,463
Lease liabilities	₱7,819,087,830	-	7,819,087,830
Finance lease liability	-	55,240,361	(55,240,361)
Retained earnings	3,345,357,261	3,709,093,180	(363,735,919)

**Pertains to Prepayments included under "Other current assets" and Deposits and Deferred charges included under "Other noncurrent assets"*

Statement of cash flows:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Payment of:			
Principal portion of lease liabilities/finance lease liability	₱710,169,984	₱12,068,298	₱698,101,686
Interest portion of lease liabilities/finance lease liability	590,149,820	1,943,253	588,206,567
Net increase in cash flows used in financing activities	₱1,300,319,804	₱14,011,551	₱1,286,308,253

The Company has lease agreements for its stores, warehouses and corporate office space. Before the adoption of PFRS 16, the Company classified its leases (as lessee) at the inception date as operating lease. The Company also has a lease arrangement covering various computer equipment used in the operations. Before the adoption of PFRS 16, the Company classified this lease (as lessee) as finance lease. Refer to Summary of Significant Accounting Policies for the accounting policy on leases prior to January 1, 2019.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases using the lease-by-lease approach except for short-term leases and leases of low-value assets. Refer to Summary of Significant Accounting Policies for the accounting policy on leases beginning January 1, 2019.

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid lease payments, advance rentals and deferred charges previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.



The Company also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as of January 1, 2019:

- Right-of-use assets of ₱8,259.01 million were recognized and presented separately in the statement of financial position. This includes reclassification of Property, plant and equipment amounting to ₱67.75 million, net of accumulated depreciation, pertaining to portion of leased assets under the finance lease in the prior year.
- Lease liabilities amounting to ₱8,044.06 million were recognized and presented separately in the statement of financial position. This includes reclassification of Finance lease liability amounting to ₱65.39 million, pertaining to the finance lease in the prior year.
- Prepayments of ₱212.59 million related to advance rentals and deferred charges representing excess of principal amount of the security deposits over its fair value were reclassified to right-of-use assets.

The lease liability as of January 1, 2019 as can be reconciled to the operating lease commitments as of 31 December 2018, are as follows:

Minimum lease payments under operating leases as of	
December 31, 2018	₱20,225,300,213
Weighted average incremental borrowing rate	7.25%
Discounted operating lease commitments at January 1, 2019	10,676,597,785
Less: Commitments relating to short term leases	(2,697,929,330)
Add: Commitments relating to leases previously classified as finance leases	65,393,463
Lease liabilities recognized at January 1, 2019	₱8,044,061,918

Due to the adoption of PFRS 16, the Company's operating income in 2019 will improve, while its finance cost on lease liabilities will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17 which are recorded under "Operating expenses" in the statement of comprehensive income.

The adoption of PFRS 16 will not have an impact on equity as of January 1, 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments, advance rentals and deferred charges relating to that lease recognized in the statement of financial position immediately before the date of initial application.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to



interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. An entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Company's assessment, it has no material uncertain tax treatments. Accordingly, the adoption of the Interpretation has no significant impact on the financial statements.

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the financial statements of the Company as it does not have any debt instruments with negative compensation payment features.

- *Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event



- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the financial statements as the Company.

- Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.



An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments are currently not applicable to the Company but may apply to future transactions.

- *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

These amendments are currently not applicable to the Company but may apply to future transactions.

- *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The amendments did not have an impact on the Company's financial statements as it did not have borrowings at the time of adoption.

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, 2020

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the



definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

The Company plans to apply these amendments on the required effective date.

Effective beginning on or after January 1, 2021

- 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, 2021, 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 effective January 1, 2018

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, 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.

Impairment of financial assets prior to January 1, 2018

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

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), lease liabilities, finance lease liability 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 26.

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

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.

Deposits

Deposits are payments to lessors and utility companies for rental and meter deposits which will be offset against the Company's outstanding balance at the end of the contract term. These are recognized at the actual payments at transaction date.

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. 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. 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 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.

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, and adjusted for any remeasurement of lease liabilities. 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



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 or a change in the assessment to purchase the underlying 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.

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 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 comprise 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 effective January 1, 2018

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.



Revenue recognition prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty, as applicable. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

Deferred Revenue

Aside from the customer loyalty points, deferred revenue also includes redeemable credit, gift checks and commission arising from concession agreements. These are deferred and recognized as revenue when the goods are delivered or services are rendered.

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 25 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 (see Note 28).

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:

Recognition of insurance recovery

The Company has recognized insurance recovery from its business interruption claim and inventory loss claims. For the amount recognized, the Company has determined that the likelihood of receiving insurance recovery is virtually certain and its recognition in the period is appropriate considering the following:

- There is a valid insurance policy for the incident;
- The advanced status of the Company's discussion with the adjuster and insurers regarding the claim; and
- The subsequent information that conform the status of the claim as of the reporting date.



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. The Company exercised 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.

Finance Lease - Company as a Lessee

The Company has entered into a lease agreement as lessee. This agreement is accounted for as finance leases since the Company assumed substantially all the risks and rewards incidental to ownership of the properties which are leased out under finance lease agreements due to the following:

- The Company has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; and
- The lease term is for the major part of the economic life of the asset even if title is not transferred.

Finance lease liability pertaining to leased computer equipment amounted to ₱65.39 million as of December 31, 2018 (see Notes 9 and 23).

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 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.

Contract liabilities amounted to ₱103.53 million and ₱103.20 million as of December 31, 2019 and 2018, respectively (see Note 12).



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 2019 and 2018.

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 Net Realizable Value 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.

Merchandise inventories amounted to ₱4,636.58 million and ₱3,589.61 million as of December 31, 2019 and 2018, respectively (see Note 7).

Provision for expected credit losses of trade receivables and security deposits effective January 1, 2018

The Company uses a provision matrix to calculate ECLs for trade receivables. 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. 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.

Allowance for impairment losses of receivables amounted to ₱11.61 million as of December 31, 2019 and 2018. The carrying amount of receivables, net of valuation allowance, amounted to ₱1,149.13 million and ₱1,371.59 million as of December 31, 2019 and 2018, respectively (see Note 6).

In 2017, the Company recognized allowance for impairment losses amounting to ₱28.17 million pertaining to security deposits which may not be recoverable due to the acceleration of lease termination date from a planned closure in 2018 of a non-performing store. In 2018, the Company completed the closure but there were no final agreement yet as to the security deposit, thus the



non-reversal of allowance for impairment loss. The carrying amount of security deposit, net of impairment losses, amounted to ₱316.23 million and ₱360.57 million as of December 31, 2019 and December 31, 2018, respectively (see Notes 8 and 10).

Assessing Impairment for Financial Assets prior to January 1, 2018

The Company provides allowance for losses on financial assets to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Allowance for impairment losses of receivables amounted to ₱11.61 million as of December 31, 2017 (Note 6).

In 2017, the Company recognized allowance for impairment losses pertaining to security deposits which is not recoverable due to the acceleration of lease termination date from a planned closure of a non-performing store amounting to ₱28.17 million for the year ended December 31, 2017.

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 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 property and equipment. As of December 31, 2019 and 2018, the carrying value of the Company's nonfinancial assets are, as follows:

	2019	2018
Other current assets* (Note 8)	₱480,436,188	₱491,918,590
Property and equipment (Note 9)	4,700,483,138	3,286,048,181
Right-of-use assets (Note 23)	7,512,796,866	-
Other noncurrent assets** (Note 10)	720,996,277	651,107,355
	₱13,414,712,469	₱4,429,074,126

*excluding security deposits

**excluding security deposits, net of allowance

In 2017, the Company recognized provision for impairment losses amounting to ₱36.81 million pertaining to leasehold improvements and store equipment which may not be recoverable due to planned closure in 2018 of a non-performing store. In 2018, the Company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million, resulting to a reversal of impairment loss of ₱0.16 million (see Note 9).

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



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

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 ₱7,819.09 million as of December 31, 2019 (see Note 23).

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 20 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 ₱58.37 million, ₱47.13 million and ₱36.35 million in 2019, 2018 and 2017, respectively. Retirement benefits obligation amounted to ₱500.62 million and ₱393.01 million as of December 31, 2019 and 2018, respectively (see Note 20).

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	₱156,930,765	₱136,731,652
Cash in banks	2,323,026,855	1,487,443,196
Cash equivalents	429,165,680	1,982,004,556
	₱2,909,123,300	₱3,606,179,404

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 7.38% in 2019 and 2018 and 2.13% to 3.25% in 2017.



Interest income earned from cash and cash equivalents amounted to ₱80.00 million, ₱57.16 million and ₱40.77 million in 2019, 2018 and 2017, respectively (see Note 16).

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 4.0% to 6.6%, 3.9% to 6.3% and 2.4% to 3.0% in 2019, 2018 and 2017, respectively.

Short term investments as of December 31, 2019 and 2018 amounted to ₱629.57 million and ₱358.44 million, respectively.

Interest income earned from short-term investments amounted to ₱14.77 million, ₱14.84 million and ₱14.86 million in 2019, 2018 and 2017, respectively (see Note 16).

6. Receivables

This account consists of:

	2019	2018
Trade		
Third parties	₱952,711,790	₱838,558,786
Related parties (Note 21)	1,409,351	420,314
Nontrade		
Receivable from insurance	104,364,149	455,625,348
Rentals	37,449,489	29,838,612
Related parties (Note 21)	20,934,612	24,295,195
Accrued interest receivable (Note 16)	14,518,808	9,433,385
Advances to employees and officers	4,176,287	4,224,559
Others	25,175,522	20,809,962
	1,160,740,008	1,383,206,161
Less allowance for expected credit losses	11,612,412	11,612,412
	₱1,149,127,596	₱1,371,593,749

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

Receivable from insurance consists of insurance claims for inventory loss due to fire amounting to ₱104.36 million as of December 31, 2019 and business interruption claim amounting to ₱455.63 million as of December 31, 2018.

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.

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 receivables from third parties follow:

	2019	2018	2017
Beginning of year	₱11,612,412	₱11,612,412	₱9,488,256
Provision for impairment of receivables (Note 18)	-	-	2,124,156
End of year	₱11,612,412	₱11,612,412	₱11,612,412

The Company has directly written off receivables which are deemed uncollectible amounting to ₱3.70 million, ₱5.89 million, and ₱4.73 million in 2019, 2018 and 2017, respectively (Note 18).

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2019	2018	2017
Beginning inventory at cost	₱3,589,605,171	₱4,002,495,549	₱4,014,727,305
Add purchases - net	29,601,659,711	25,497,242,262	27,391,644,395
Cost of goods available for sale	33,191,264,882	29,499,737,811	31,406,371,700
Less cost of merchandise sold (Note 17)	(28,554,688,612)	(25,609,645,879)	(27,403,876,151)
Inventory loss due to fire (Note 16)	-	(300,486,761)	-
Ending inventory at cost	₱4,636,576,270	₱3,589,605,171	₱4,002,495,549

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 ₱61.61 million and ₱111.32 million in 2019 and 2018, respectively (see Note 16).

No inventories have been used or pledged as security for the Company's obligations in 2019 and 2018.

No allowance for obsolescence had been recognized in 2019 and 2018.

The Company does not have any purchase commitments as of December 31, 2019 and 2018.



8. Other Current Assets

This account consists of:

	2019	2018
Prepayments	₱99,953,762	₱82,302,483
Deferred input VAT - current	70,964,241	60,903,530
Supplies	61,266,986	58,822,792
Advances to trade suppliers		
Related parties (Note 21)	234,245,539	288,563,247
Third parties	14,047,446	7,311,341
Security deposits - current	11,189,990	3,188,784
	491,667,964	501,092,177
Less allowance for impairment losses (Note 18)	41,786	5,984,803
	₱491,626,178	₱495,107,374

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

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 losses for other current assets follow:

	2019	2018
Beginning of year	₱5,984,803	₱-
Provision for impairment losses (Note 18)	-	5,984,803
Write-off	(5,943,017)	-
End of year	₱41,786	₱5,984,803

The Company has directly written off security deposits amounting to ₱0.96 million and ₱5.45 million in 2019 and 2018, respectively (Note 18).



9. **Property and Equipment**

The rollforward analysis of this account follows:

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	₱1,198,949,853	₱350,058,247	₱1,381,009,794	₱1,328,418,313	₱6,096,551,587
Effect of adoption of PFRS 16 (Notes 2 and 23)	-	-	(112,675,698)	-	-	-	(112,675,698)
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	₱898,140,913	₱164,700,626	₱437,390,495	₱-	2,810,503,406
Effect of adoption of PFRS 16 (Notes 2 and 23)	-	-	(44,929,336)	-	-	-	(44,929,336)
Depreciation and amortization (Notes 17 and 18)	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



2018

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction- in-Progress	Total
Cost:							
At beginning of year	₱174,490,663	₱1,603,562,663	₱1,149,885,641	₱323,673,958	₱1,481,768,192	₱162,773,736	₱4,896,154,853
Additions	–	179,720,859	75,148,596	27,491,359	7,061,134	1,165,644,577	1,455,066,525
Retirements	(12,162,576)	(107,496,229)	(26,084,384)	(1,107,070)	(107,819,532)	–	(254,669,791)
At end of year	162,328,087	1,675,787,293	1,198,949,853	350,058,247	1,381,009,794	1,328,418,313	6,096,551,587
Accumulated Depreciation and Amortization:							
At beginning of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Depreciation and amortization (Notes 17 and 18)	17,147,667	166,198,354	134,746,105	57,996,641	114,273,335	–	490,362,102
Retirements	(3,892,932)	(81,115,889)	(23,362,980)	(1,055,580)	(59,375,334)	–	(168,802,715)
At end of year	68,930,457	1,241,340,915	898,140,913	164,700,626	437,390,495	–	2,810,503,406
Net Book Value	₱93,397,630	₱434,446,378	₱300,808,940	₱185,357,621	₱943,619,299	₱1,328,418,313	₱3,286,048,181

The Company leases computer equipment which was accounted for as finance lease under PAS 17. Upon adoption of PFRS 16, the Company reclassified a portion of the carrying amount of the computer equipment to right-of-use assets amounting to ₱67.75 million (see Note 2).

Construction-in-progress pertains to ongoing construction of 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 January 2018, a department store and supermarket of the Company were seriously damaged by fire. The net book value of the damaged property and equipment amounted to ₱49.19 million. In April 2018, the Company received insurance proceeds amounting to ₱133.41 million for the property and equipment damaged by fire (see Note 16).



In March 2018, the Company closed a non-performing hypermarket store. The Company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million. An allowance for impairment losses of ₱36.81 million was previously recognized in 2017.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2019 and 2018.

There are no contractual purchase commitments for property and equipment as of December 31, 2019 and 2018.



10. Other Noncurrent Assets

This account consists of:

	2019	2018
Deposits	₱464,311,328	₱506,712,406
Advances to nontrade suppliers		
Third parties	242,260,895	203,816,267
Related parties (Note 21)	213,594,590	206,194,971
Deferred input VAT	142,808,254	130,945,400
Deferred charges	-	9,866,474
	1,062,975,067	1,057,535,518
Less allowance for impairment losses (Note 18)	36,941,072	49,043,926
	₱1,026,033,995	₱1,008,491,592

Deposits are payments to lessors for advance rental and security deposits and utility companies for meter deposits. In 2019, the Company paid security deposits pertaining to new lease contracts and existing contracts amounting to ₱68.46 million and ₱29.56 million, respectively. Security deposits, less any unpaid rent and other charges, are refundable to the Company at the end of contract term.

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.

Accretions of the security deposits amounted to ₱7.14 million and ₱3.07 million in 2019 and 2018, respectively and are presented under "Interest and other income" of the statement of comprehensive income (see Note 16).

Deferred charges represent the excess of the principal amount of the security deposits over its fair value. Upon adoption of PFRS 16, this amount is accounted for as prepaid lease payment and reclassified to right-of-use assets.

Allowance for impairment losses pertains to long outstanding advances to nontrade suppliers and security deposits which is not recoverable due to the acceleration of lease termination date as a result of the closure of a non-performing store in 2018.

Movements in the allowance for impairment losses for other noncurrent assets follow:

	2019	2018
Beginning of year	₱49,043,926	₱28,168,824
Provision for impairment losses (Note 18)	6,226,120	20,875,102
Write-off	(18,328,974)	-
End of year	₱36,941,072	₱49,043,926



11. Trade and Other Payables

This account consists of:

	2019	2018
Trade		
Third parties	₱3,559,741,196	₱3,023,314,615
Related parties (Note 21)	66,477,560	73,333,005
Nontrade		
Third parties	818,801,631	400,728,580
Related parties (Note 21)	6,582,946	-
Accrued expenses	384,938,764	297,442,442
Credit cash bonds	328,537,168	328,163,607
Output VAT - net	115,835,443	182,599,123
Others	128,585,144	86,706,037
	₱5,409,499,852	₱4,392,287,409

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:

	2019	2018
Suppliers and contractors	₱107,416,515	₱80,342,977
Utilities	67,493,995	63,502,862
Rentals	61,595,227	63,180,353
Marketing-related cost	37,418,704	26,235,151
Professional fees	13,370,954	12,288,843
Other accruals	97,643,369	51,892,256
	₱384,938,764	₱297,442,442

Other accruals pertain to sick leave and vacation leave credits, government remittances, and other operating related expenses, which include accrued expenses related to the closure of non-performing store in 2018 (Note 18)

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 applied against the account holder's remaining balance 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 ₱15.43 million, ₱16.57 million and ₱14.68 million in 2019, 2018 and 2017, respectively. These were settled through deduction in the credit account holders' receivable balance (Note 16).

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, and other sundry payables.

12. Contract Liabilities

This account consists of:

	2019	2018
Gift check outstanding	₱51,457,929	₱47,092,121
Stored value cards	26,719,703	29,235,254
Accrued customer loyalty reward	25,348,205	26,868,285
	₱103,525,837	₱103,195,660

These items can only be redeemed from the Company's own stores.

The rollforward analysis of this account follows:

	2019	2018
Beginning of year	₱103,195,660	₱144,484,224
Deferred during the year	3,150,688,470	3,165,169,755
Recognized as revenue during the year	(3,150,358,293)	(3,206,458,319)
End of year	₱103,525,837	₱103,195,660

13. Other Noncurrent Liabilities

Other noncurrent liabilities pertain to security deposits from tenants for the lease of space in the Company's stores. These security deposits are refundable to the tenants upon termination of contract.

Other noncurrent liabilities as of December 31, 2019 and 2018 amounted to ₱65.74 million and ₱53.22 million, respectively.



14. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2019 and 2018 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, 2019 and 2018, the Company has 23 and 22 existing shareholders, respectively.

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, 2019 and 2018.

Retained Earnings

On March 18, 2019, the BOD approved the declaration of cash dividends amounting to ₱205.76 million 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.

On March 16, 2017, the BOD approved the declaration of cash dividends amounting to ₱171.47 million or 0.05 per share, out of the Company's retained earnings as of December 31, 2016 to stockholders of record as of April 3, 2017 and was paid on May 2, 2017.

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, 2019 amounted to ₱3,033.59 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, 2019 and 2018. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2019	2018
Capital stock	₱3,429,375,000	₱3,429,375,000
Additional paid-in capital	2,455,542,149	2,455,542,149
Retained earnings	3,345,357,261	2,775,475,030
	₱9,230,274,410	₱8,660,392,179

15. Net sales

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

The following table disaggregates the Company's revenue by geographical markets and major goods or service lines for the year ended December 31, 2019 and 2018:

	2019	2018
Geographical markets		
Luzon	₱14,635,972,380	₱13,846,959,038
Visayas	22,154,205,418	19,203,125,116
Total revenue from contracts with customers	₱36,790,177,798	₱33,050,084,154
Major goods/service lines		
Food retail	₱24,160,819,141	₱21,058,429,818
General Merchandise	12,629,358,657	11,991,654,336
Total revenue from contracts with customers	₱36,790,177,798	₱33,050,084,154

The comparative information for the year ended 2017 has not been presented as it continues to be reported under the accounting standards in effect for this period.

16. Other income (Charges)

Interest and other income

	2019	2018	2017
Gain on insurance claims - net (Notes 6, 7 and 9)	₱538,743,310	₱350,681,819	₱-
Interest income (Notes 4, 5 and 10)	101,905,155	75,072,483	55,627,487
Foreign currency exchange (loss) gain	(8,451,855)	20,721,700	16,345,152
Scrap sales	7,938,388	11,167,237	12,018,292
Others	69,168,785	32,961,803	54,029,859
	₱709,303,783	₱490,605,042	138,020,790



In 2018, gain on insurance claims pertain to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims amounting to ₱700.36 million, net of total costs of damaged properties amounting to ₱349.68 million (Notes 7 and 9). 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 18).

In 2019, additional gain on insurance claims was recognized which pertain to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims amounting to ₱165.97 million and ₱372.78 million, respectively.

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

	2019	2018	2017
Finance cost on lease liabilities (Note 23)	₱590,149,819	₱-	₱-
Interest expense on cash bond (Note 11)	15,427,012	16,571,184	14,678,367
Finance cost on finance lease liability (Note 23)	-	2,469,947	2,527,058
Interest expense from short-term bank loans	1,906,565	-	371,192
	₱607,483,396	₱19,041,131	₱17,576,617

17. Cost of Sales

	2019	2018	2017
Cost of merchandise sold (Note 7)	₱28,554,688,612	₱25,609,645,879	₱27,403,876,151
Others (Notes 9, 18 and 19)	37,855,425	40,372,543	39,557,332
	₱28,592,544,037	₱25,650,018,422	₱27,443,433,483

Others pertain to the direct labor and other overhead costs.

Depreciation and amortization charged to cost of sales amounted to ₱0.64 million, ₱1.85 million and ₱3.06 million in 2019, 2018 and 2017, respectively.



18. Operating Expenses

	2019	2018	2017
Personnel cost (Note 19)	₱2,283,189,777	₱2,148,349,706	₱2,092,246,328
Depreciation and amortization of right-of-use assets (Note 23)	1,241,452,884	-	-
Light, water and communication	836,149,002	771,554,452	775,924,103
Rental (Notes 21 and 23)	492,153,089	1,655,368,522	1,546,596,778
Depreciation and amortization of property, plant and equipment (Note 9)	480,256,688	488,510,195	516,456,796
Taxes and licenses	420,162,088	335,216,318	300,832,944
Contracted services	359,636,298	323,312,764	346,710,142
Repairs and maintenance	282,022,862	228,491,256	198,983,414
Supplies	213,340,903	182,115,321	173,321,819
Advertising	191,018,105	172,889,025	204,941,649
Professional fees	141,486,717	91,367,699	48,941,711
Transportation and travel	102,071,703	102,573,301	89,413,195
Commission	101,935,047	84,837,363	102,438,162
Insurance	95,196,363	62,853,099	31,557,777
Subscriptions	66,698,919	40,791,458	45,256,831
Write-off of assets (Notes 6 and 8)	4,662,102	11,344,445	4,729,610
Provision for:			
Impairment of assets (Notes 8 and 10)	6,226,120	26,859,905	64,977,300
Impairment of receivables (Note 6)	-	-	2,124,156
Probable loss (Note 11)	-	-	23,467,777
Others	72,527,696	32,364,940	27,987,299
	₱7,390,186,363	₱6,758,799,769	₱6,596,907,791

Write-off of assets pertain to receivables, advances to suppliers where there is no reasonable expectation of recovery and nonrefundable security deposits relating to lease agreements that are already terminated.

Impairment of assets pertains to long outstanding advances to supplier and security deposits of pre-terminated and terminated contracts.

Others pertain to representation, entertainment, donations and contributions.

19. Personnel Cost

	2019	2018	2017
Salaries and wages	₱1,925,955,546	₱1,793,136,308	₱1,741,795,649
Retirement benefits costs (Note 20)	58,373,098	47,134,866	36,352,996
Other employee benefits	362,643,778	353,384,477	339,636,308
	₱2,346,972,422	₱2,193,655,651	₱2,117,784,953



Personnel cost that were recognized as cost of sales amounted to ₱27.04 million, ₱26.90 million and ₱25.54 million in 2019, 2018 and 2017, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱36.74 million and ₱18.40 million in 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.

20. Retirement Benefit Obligation

The Company has a 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 expense, defined benefit obligation, and the pension liability 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:

	2019	2018	2017
Current service cost	₱28,111,567	₱25,558,718	₱17,564,470
Interest cost	30,261,531	21,576,148	18,788,526
	₱58,373,098	₱47,134,866	₱36,352,996

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:

	2019	2018	2017
Actuarial (loss) gain due to:			
Changes in financial assumptions	(₱62,890,118)	(₱13,480,268)	14,851,463
Experience adjustments	10,122,832	13,680,128	(₱25,521,310)
	(₱52,767,286)	₱199,860	(₱10,669,847)



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

	2019	2018
Balance at beginning of year	₱393,006,901	₱353,707,351
Current service cost	28,111,567	25,558,718
Interest cost	30,261,531	21,576,148
Benefits paid	(3,524,263)	(7,635,456)
Actuarial (gain) loss due to:		
Changes in financial assumptions	62,890,118	13,480,268
Experience adjustments	(10,122,832)	(13,680,128)
Balance at end of year	₱500,623,022	₱393,006,901

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

	2019	2018	2017
Salary increase rate	4.00%	5.00%	3.00%
Discount rate	5.40%	7.70%	6.10%

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.

	2019		2018	
	Increase (decrease)	Net Retirement benefit liability	Increase (decrease)	Net Retirement benefit liability
Discount Rates	+0.5%	(₱25,349,212)	+0.5%	(₱18,820,579)
	-0.5%	27,652,247	-0.5%	20,430,769
Salary increase rate	+0.5%	₱26,529,004	+0.5%	₱19,825,737
	-0.5%	(24,547,058)	-0.5%	(18,415,616)

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:

	2019	2018
1 year and less	₱-	₱-
More than one year to 5 years	172,413,195	124,304,913
More than 5 years to 10 years	197,773,022	198,397,643
More than 10 years to 15 years	402,914,539	436,970,053
More than 15 years to 20 years	3,026,805,120	3,775,078,887
	₱3,799,905,876	₱4,534,751,496

The weighted average duration of the defined benefit obligation is 14 years in 2019 and 2018.



21. 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 maybe 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, 2019 and 2018 are as follows:

December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 6), (a)	₱20,182,674	₱2,850,946	Noninterest-bearing and due in 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), (e)	91,660,047	18,083,666	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
Parent Company (VDC)			
Lease liabilities (Note 23), (c)	₱1,701,740,198*	(₱1,077,186,151)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 18), (b)	99,175,258	-	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
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), (e)	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

December 31, 2018

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (Note 6), (a)	₱28,599,986	5,828,210	Noninterest-bearing and due in 30 days, not impaired
Entities Under Common Control			
Sale of goods (Note 6), (d)	402,703	420,314	Noninterest-bearing and due in 30 days, unsecured
Advances and rental income (Note 6), (e)	83,238,318	18,466,985	Noninterest-bearing and payable in 30 days, unsecured
Advances to suppliers (Notes 8 and 10), (d)	621,788,498	494,758,218	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱519,473,727	



	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Rental expense (Note 18), (c)	₱1,205,781,177	(₱1,293,591)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 18), (b)	52,849,506	-	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase of goods (Note 11), (d)	114,501,063	(72,039,414)	Noninterest-bearing and payable in 30 days, not impaired
Purchase of services and rent expense (Note 11), (d)	65,439,975	-	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱73,333,005)	

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

- Advances to VDC pertain to expenses paid by the Company on behalf of VDC.
- 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.
- Most of the Company's stores and warehouses are leased out from VDC. These are recorded as "Lease liabilities" and "Trade and other payables" as of December 31, 2019 and 2018, respectively.
- The Company has short-term noninterest-bearing receivables/payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
- The Company has receivables/payables pertaining to rental transactions in the Company's stores. These are noninterest-bearing and are collectible within 30 days.

The Company has an approval requirement for all related party transactions. In the event that related party transactions exceed the materiality threshold, which is 10% of the Company's total assets based on its latest audited financial statements, a more extensive approval process is required.

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱1,249.04 million and ₱1,480.29 million in 2019 and 2018, respectively, which earn interest based on prevailing market interest rates amounting to ₱46.07 million and ₱23.98 million and in 2019 and 2018, respectively.

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

	2019	2018	2017
Short-term employee benefits	₱122,494,445	₱132,824,561	₱135,149,156
Post-employment benefits	2,611,029	4,483,218	3,786,384



There are no amounts due to or due from members of key management as of December 31, 2019 and 2018.

The Company has not recognized any impairment losses on amounts due from related parties in 2019 and 2018. 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.

22. Income Taxes

Provision for income tax consists of:

	2019	2018	2017
Current			
RCIT	₱513,211,025	₱370,560,574	₱440,694,207
Final	16,672,349	13,766,405	10,314,167
	₱529,883,374	384,326,979	451,008,374
Deferred	(140,450,099)	(3,123,004)	(32,241,844)
	₱389,433,275	₱381,203,975	₱418,766,530

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

	2019	2018
Retirement benefit obligation (Note 20)	₱150,186,906	₱117,902,070
Provision for impairment of assets (Notes 8 and 10)	2,644,210	16,508,618
Contract liability from customer loyalty program (Note 12)	7,604,461	8,060,484
Provisions (Notes 10 and 11)	19,061,580	7,040,333
Allowance for impairment of receivables (Note 6)	3,483,724	3,483,724
Nontaxable excess of insurance proceeds on damaged fixed assets	(25,265,830)	-
Right-of-use assets (Note 23)	(2,253,839,060)	-
Lease liabilities (Note 23)	2,405,399,523	-
	₱309,275,514	₱152,995,229

The Company recognized net deferred tax asset amounting to ₱15.83 million in 2019 and deferred tax liability amounting to ₱0.06 million in 2018 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.



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

	2019	2018	2017
Tax at 30% on income before tax	₱349,523,401	₱403,974,448	₱418,717,152
Tax effects of:			
Nondeductible expenses	25,648,551	9,760,279	5,742,448
Income subjected to final tax	(11,004,507)	(7,264,922)	(5,693,070)
Nontaxable excess of insurance proceeds on damaged fixed assets	25,265,830	(25,265,830)	-
	₱389,433,275	₱381,203,975	₱418,766,530

23. 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:

	Land	Building	IT Equipment	Others	Total
<u>Cost</u>					
At January 1, as previously reported	₱-	₱-	₱-	₱-	₱-
Effect of adoption of standard (Note 2)	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
At January 1, as restated	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
Lease modification	-	-	(10,153,102)	-	(10,153,102)
Additions	38,860,506	466,535,864	-	-	505,396,370
At December 31	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087

(Forward)



	Land	Building	IT Equipment	Others	Total
Accumulated Depreciation (Note 9)					
At January 1, as previously reported	₱-	₱-	₱-	₱-	₱-
Effect of adoption of standard (Note 9)	-	-	44,929,336	-	44,929,336
At January 1, as restated	-	-	44,929,336	-	44,929,336
Depreciation (Note 18)	265,700,612	958,408,226	16,615,746	728,300	1,241,452,884
At December 31	265,700,612	958,408,226	61,545,082	728,300	1,286,382,220
Net Book Value	₱1,406,203,288	₱6,065,130,531	₱40,977,514	₱485,534	₱7,512,796,867

The following are the amounts recognized in statement of income:

	2019
Depreciation expense of right-of-use assets (Note 18)	₱1,241,452,884
Finance cost on lease liabilities (Note 16)	590,149,820
Expenses relating to short-term leases*	64,891,435
Variable lease payments*	427,261,654
Total amount recognized in statement of income	₱2,323,755,793

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

The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	₱-
Effect of adoption of PFRS 16 (see Note 2)	8,044,061,918
At January 1, 2019, as restated	₱8,044,061,918
Lease modification	(10,153,102)
Additions	495,348,998
Interest expense (Note 16)	590,149,820
Payments	(1,300,319,804)
As at December 31, 2019	₱7,819,087,830

Classification of lease liabilities as of December 31, 2019 is, as follows:

Current portion	₱949,045,108
Noncurrent portion	6,870,042,722
As at December 31, 2019	₱7,819,087,830

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

	2019
Within one year	₱1,422,083,013
More than one year but not more than five years	3,218,667,253
More than five years	10,860,085,882



Operating leases - 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 five 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 ₱65.74 million and ₱53.22 million as of December 31, 2019 and 2018, respectively (Note 13). Rental income amounted to ₱255.81 million, ₱233.75 million and ₱299.88 million in 2019, 2018 and 2017, respectively.

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

	2019
Within one year	₱118,751,387
More than one year but not more than five years	43,662,149
More than five years	-

24. Earnings Per Share

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

	2019	2018	2017
Net income	₱775,644,731	₱965,377,520	₱976,957,309
Weighted-average number of common shares	3,429,375,000	3,429,375,000	3,429,375,000
Basic/Diluted EPS	₱0.23	₱0.28	₱0.28

There are no potentially dilutive common shares as of December 31, 2019, 2018 and 2017.

25. 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.

26. Financial Instruments

Fair Value of Financial Instruments

As of December 31, 2019 and 2018, 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:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Security deposits, net of allowance for impairment losses (Note 10)	₱305,037,717	₱309,936,918	₱357,384,237	₱ 200,755,676



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 3.46% to 5.23% for 2019 and 6.81% to 7.53% in 2018. The fair value of security deposits was determined by discounting future cash flows using the applicable rate of 3.74%.

Financial Liabilities

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

The fair value of the items classified as security deposits and finance lease liability is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Finance lease liability	₱-	₱-	₱65,393,463	₱63,527,692
Other noncurrent liabilities (Note 13)	65,737,958	63,567,140	53,216,403	47,874,695
	₱65,737,958	₱63,567,140	₱118,609,866	₱111,402,387

The fair values of the long term portion of finance lease liability were based on the discounted value of future cash flow using applicable interest rates ranging from 3.74% to 5.22% for 2018. The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 3.74%.

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 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, 2019 and 2018 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, 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

December 31, 2018

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱-	₱2,965,477,365	₱-	₱2,965,477,365
Related parties	-	73,333,005	-	73,333,005
Nontrade				
Credit cash bonds	-	400,728,580	-	400,728,580
Accrued expenses	-	328,163,607	-	328,163,607
Finance lease liability	-	297,442,442	-	297,442,442
Finance lease liability	-	14,011,551	45,921,342	59,932,893
Others*	-	36,574,287	-	36,574,287
Other noncurrent liabilities	-	-	53,216,403	53,216,403
	₱-	₱4,115,730,837	₱99,137,745	₱4,214,868,582

*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:

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	P952,711,790	P296,307,561	P656,404,229	P296,307,561
Related parties	1,409,351	-	1,409,351	-
Nontrade				
Receivable from insurance	104,364,149	-	104,364,149	-
Rentals	37,449,489	65,737,958	-	37,449,489
Related parties	20,934,612	-	20,934,612	-
Accrued interest receivable	14,518,808	-	14,518,808	-
Others*	15,500,741	-	15,500,741	-
	P1,146,888,940	P362,045,519	P813,131,890	P333,757,050

*excluding receivable from SSS amounting to P9,674,781

2018				
	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	P838,558,786	P328,163,607	P510,395,179	P328,163,607
Related parties	420,314	-	420,314	-
Nontrade				
Receivable from insurance	455,625,348	-	455,625,348	-
Rentals	29,838,612	53,216,403	-	29,838,612
Related parties	24,295,195	-	24,295,195	-
Accrued interest receivable	9,433,385	-	9,433,385	-
Others*	14,407,306	-	14,407,306	-
	P1,378,981,602	P381,380,010	P1,014,576,727	P358,002,219

*excluding receivable from SSS amounting to P6,402,657

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 to third party and related parties for sales of inventory;
- 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 receivables

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade 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:

December 31, 2019

	Days past due					Total
	Current	< 30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	780,447,898	8,650,114	13,433,677	7,121,041	40,495,255	850,147,985
Expected credit loss	₱-	₱-	₱-	₱-	₱-	₱-

December 31, 2018

	Days past due					Total
	Current	< 30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	699,292,715	180,838,698	4,117,457	2,330,319	41,001,624	927,580,813
Expected credit loss	₱-	₱-	₱-	₱-	₱-	₱-

The allowances for trade receivables as of December 31, 2018 reconcile to the opening loss allowance as follows:

Balances as of January 1, 2019	₱11,612,412
Allowance recognized in profit or loss during the year	3,703,304
Receivables written off during the year	(3,703,304)
	₱11,612,412



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.

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.

27. Notes to Statements of Cash Flows

The Company's noncash activities are as follows:

- a) The Company recognized receivables pertaining to insurance claims from insurers amounting to ₱104.36 million (inventory claims) and ₱455.63 million (business interruption claims) in 2019 and 2018, respectively (see Note 6).
- b) Transfers from advances to suppliers to property and equipment amounted to ₱23.73 million and ₱7.33 million for 2019 and 2018, respectively.
- c) Long-outstanding advances to suppliers were written off in 2019 amounting to ₱0.96 million.
- d) The Company has a remaining unpaid cash dividend amounting to ₱108 out of the ₱205.76 million declared in 2019.
- e) Loss on merchandise inventories damaged due to fire amounting to ₱300.49 million was recorded in 2018 (see Note 7).
- 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 (see Notes 2 and 9). 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 23).
- g) Advance rentals and deferred charges amounting to ₱219.24 million were transferred from non-current assets to right-of-use assets upon adoption of PFRS 16 (see Note 2).
- h) Changes in lease liabilities and finance lease liability for which cash flows have been classified as financing activity in the statement of cash flows follows:

For the year ended December 31, 2019:

Lease liabilities as at January 1, 2019, as restated	₱8,044,061,918
Cash flows	(1,300,319,804)
Noncash flow activities	1,075,345,716
Lease liabilities as at December 31, 2019	₱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

28. Events after the reporting date

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

In support of the government directives, and in the interest of health and safety, the Company has temporarily closed all its Department Stores in Metro Manila effective March 16, 2020. The Company's Supermarket stores, however, remain open to provide basic necessities to the community it serves.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

29. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2019:

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 2019 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱32,774,832,477	₱3,932,979,897
Zero-rated sales	150,714,389	-
VAT-exempt sales	4,513,806,747	-
Total Sales	₱37,439,353,613	₱3,932,979,897

- 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	₱191,848,930
Current year's domestic purchases of goods	3,789,020,655
Current year's capital goods purchases	94,239,960
Total available input VAT	4,075,109,545
Less: deductions from input VAT	
Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	213,772,495
Input tax allocable to exempt sales	45,018,616
Input tax on sales to government closed to expense	1,757,937
Total allowable input tax	3,814,560,497
Less: Input VAT applied to Output VAT	3,814,560,497
Balance at December 31, 2019	₱-

The Company's net output VAT payable at the end of the year amounted to ₱115.84 million.

Taxes and Licenses

The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2019.

Business tax	₱257,581,250
Real property tax	62,824,712
Documentary stamp tax	6,189,265
Motor vehicle tax	1,238,435
Others	92,328,426
Total	₱420,162,088



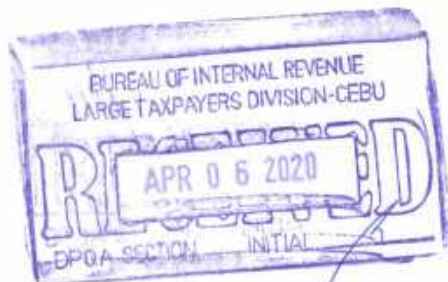
Withholding taxes

The amount of withholding taxes paid and accrued in 2019 consists of the following:

Expanded withholding taxes	₱ 482,435,999
Tax on compensation and benefits	87,576,925
Final withholding taxes	5,663,350
Total	₱575,676,274

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.

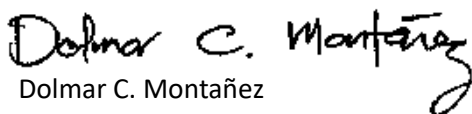


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Viscal 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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 18, 2020. 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
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

March 18, 2020

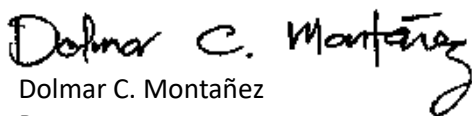


INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 18, 2020. 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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

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

March 18, 2020



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	Retained Earnings Available for Dividend Declaration
I	Map showing the Relationship between and among the Companies in the Group, its Ultimate Parent Company and Co-subsiidiaries

METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS****DECEMBER 31, 2019**

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	₱923,116,806	₱923,116,806	
Bank of the Philippine Islands	869,914,432	869,914,432	
Philippine National Bank	340,443,174	340,443,174	
Security Bank	194,075,319	194,075,319	
Land Bank of the Philippines	165,412,377	165,412,377	
Others	259,230,427	259,230,427	
	<u>2,752,192,535</u>	<u>2,752,192,535</u>	<u>₱77,303,168</u>
Short-term investments			
Wealth Development Bank	325,923,774	325,923,774	
Philippine National Bank	200,000,000	200,000,000	
China Banking Corporation	103,651,200	103,651,200	
	<u>629,574,974</u>	<u>629,574,974</u>	<u>14,770,470</u>
Receivables			
Third parties	952,711,790	952,711,790	
Related parties	22,343,964	27,244,593	
Rentals	37,449,489	37,449,489	
Others	148,234,766	148,234,766	
	<u>1,160,740,009</u>	<u>1,165,640,638</u>	<u>-</u>
	<u>₱4,542,507,518</u>	<u>₱4,547,408,147</u>	<u>₱92,073,638</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, 2019**

	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, 2019

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, 2019****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, 2019**

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, 2019**

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	-

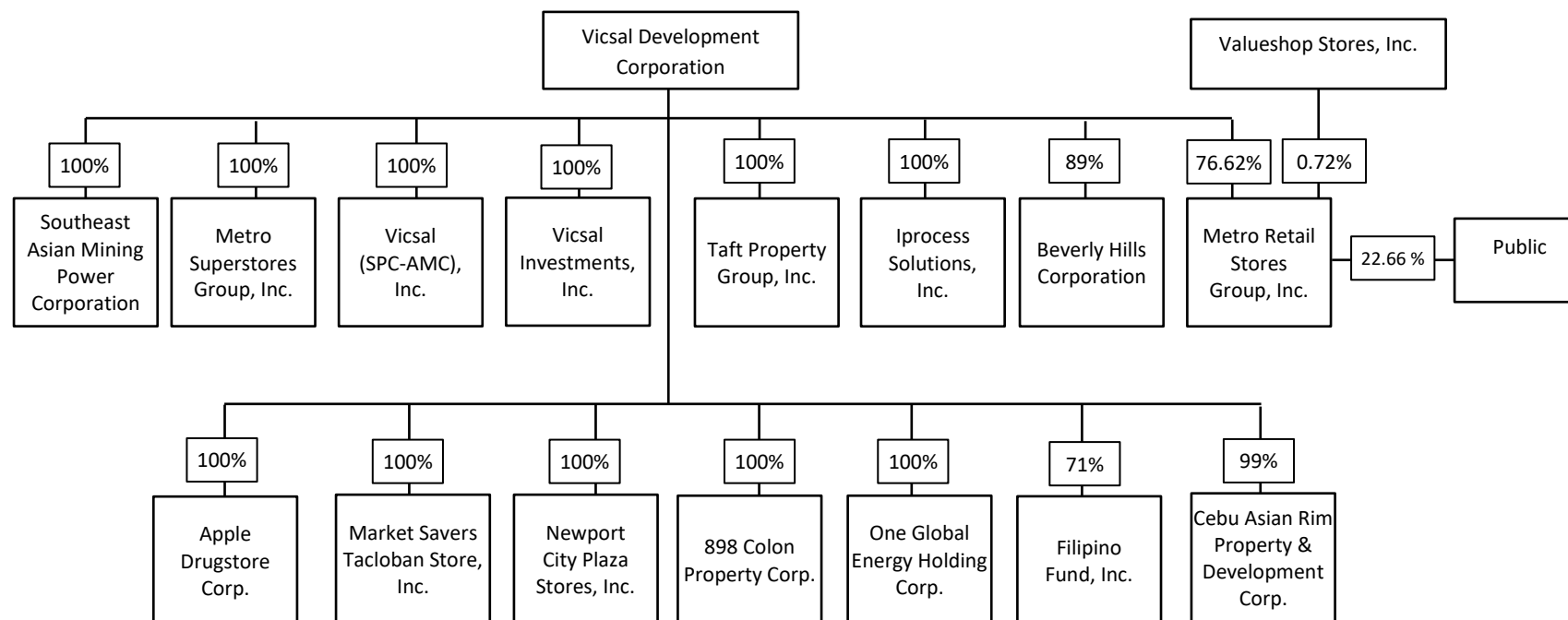
METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION
DECEMBER 31, 2019**

Unappropriated Retained Earnings, beginning	₱2,775,475,030
Less: Deferred tax assets that reduced the amount of income tax expense	171,315,805
Unappropriated Retained Earnings as adjusted, beginning	2,604,159,225
Net income based on the face of AFS	775,644,731
Less: Non-actual/unrealized income net of tax Amount of provisions for deferred tax during the year that reduced the amount of tax expense	140,450,099
Net Income Actual/Realized	635,194,632
Less: Dividend declarations during the period	205,762,500
Unappropriated Retained Earnings, as adjusted, ending	₱3,033,591,357

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, 2019



METRO RETAIL STORES GROUP, INC.**SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS****DECEMBER 31, 2019**

Ratio	Formula	2019	2018
Current ratio	Total current assets divide by total current liabilities <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <p>Total current assets</p> <p>Divide by: total current liabilities</p> <hr/> <p>Current ratio</p> </div> <div style="width: 35%; text-align: right;"> <p>₱9,816,028,318</p> <p>6,629,249,660</p> <hr/> <p>1.48</p> </div> </div>	1.48	2.01
Acid test ratio	Quick assets (total current assets less inventories and other current assets) divide by total current liabilities <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <p>Total current assets</p> <p>Less: Inventories</p> <p style="padding-left: 20px;">Other current assets</p> <hr/> <p>Quick assets</p> <p>Divide by: Total current liabilities</p> <hr/> <p>Acid test ratio</p> </div> <div style="width: 35%; text-align: right;"> <p>₱9,816,028,318</p> <p>4,636,576,270</p> <p>491,626,178</p> <hr/> <p>4,687,825,870</p> <p>6,692,249,660</p> <hr/> <p>0.70</p> </div> </div>	0.70	1.14
Debt-to-equity ratio	Total net debt (debt less cash and cash equivalents) divide by total equity <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <p>Debt</p> <p>Less: Cash and cash equivalents</p> <hr/> <p>Net debt</p> <p>Divide by: Equity</p> <hr/> <p>Net debt to equity ratio</p> </div> <div style="width: 35%; text-align: right;"> <p>₱-</p> <p>2,909,123,300</p> <hr/> <p>(2,909,123,300)</p> <p>9,235,964,469</p> <hr/> <p>(0.31)</p> </div> </div>	(0.31)	(0.41)
Asset-to-equity ratio	Total assets divide by total equity <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <p>Total Assets</p> <p>Divide by: Total Equity</p> <hr/> <p>Current Ratio</p> </div> <div style="width: 35%; text-align: right;"> <p>₱23,364,617,831</p> <p>9,235,964,469</p> <hr/> <p>2.53</p> </div> </div>	2.53	1.59

METRO RETAIL STORES GROUP, INC.
SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

Ratio	Formula	2019	2018
Interest rate coverage ratio	EBITDA divide by finance cost Net income ₱775,644,731 Add: Provision for income tax 389,433,275 Interest and other financing charges 607,483,396 <hr/> 1,772,561,402 Less: Interest income 709,303,783 <hr/> EBIT 1,063,257,619 Add: Depreciation and amortization 1,721,709,573 <hr/> EBITDA 2,784,967,192 Divide by: Finance costs 607,483,396 <hr/> Interest rate coverage ratio 4.58	4.58	93.53
Return on equity	Net Income divide by average total equity Net income ₱775,644,731 <hr/> Divide by: Average total equity Total equity CY 9,235,964,469 Total equity PY 8,703,019,338 <hr/> Average total equity 8,969,491,904 <hr/> Return on Equity 8.65%	8.65%	11.60%
Return on assets	Net Income divide by Average total assets Net income ₱775,644,731 <hr/> Divide by: Average total assets Total asset CY 23,364,617,831 Total asset PY 13,868,459,104 <hr/> Average total assets 18,616,538,468 <hr/> Return on assets 4.17%	4.17%	7.24%
Net profit margin	Net Income divide by Revenue Net income ₱775,644,731 Divide by: Revenue 36,790,177,798 <hr/> Net income margin 2.11%	2.11%	2.92%

January 30, 2020

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 Annual Progress Report on the Application of Proceeds for 2019, 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, 2019, the remaining balance of the proceeds from the MRSGI common shares IPO amounts to Seven Hundred Thirteen Million Six Hundred Ninety Seven Thousand Seven Hundred Sixty Four and Seventy Nine Centavos (Php 713,697,764.79).

The details of the disbursement for the Calendar Year 2019 are as follows:

Balance of IPO Proceeds as of December 31, 2018	Php	877,016,846.83
Add: Bank Loan Payments Charged to IPO proceeds in 2016		950,000,000.00
Less: Capital Expenditure for Store Network Expansion	1,113,318,882.04	
Bank Charges	200.00	<u>1,113,319,082.04</u>
Balance of IPO Proceeds as of December 31, 2019	Php	<u>713,697,764.79</u>

Thank you.

Very truly yours,


JOSELITO G. ORENSE
Treasurer / Chief Financial Officer



MANILA CORPORATE OFFICE

6F Metro Market Market, McKinley Parkway,
Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634
Tel No. +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

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 Annual 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, and agree the amount to the accounting records.
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.

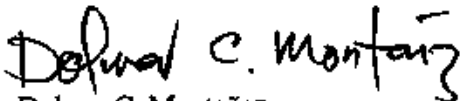
3. We compared the additions and disbursements in the Report with the schedule of application of proceeds. No exceptions were noted.
4. On a sample basis, we traced additions and disbursements to the supporting documents such as progress billings, certificate of time deposits, bank statements, invoices, and official receipts, and agreed the amount to the accounting records. The Company returned to the net proceeds ₱950 million bank loan payments charged to the IPO proceeds in 2016. No exceptions were noted.
5. On a sample basis, we inquired into and identified the nature of the disbursements. We checked if the disbursements were classified consistently according to its nature based on the schedule of planned use of IPO proceeds. 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

COVER SHEET

for
QUARTERLY FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	3	1	5	8	7	7
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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	-	Q
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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

corporateaffairs@ metroretail.ph

Company's Telephone Number

(032) 236-8390

Mobile Number

N/A

No. of Stockholders

22

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.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2020**
2. Commission identification number **CS200315877**
3. BIR Tax Identification No **226-527-915-000**
4. Exact name of issuer as specified in its charter **METRO RETAIL STORES GROUP, INC.**
5. Province, country or other jurisdiction of incorporation or organization **Cebu, Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office **Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo,
North Reclamation Area, Mandaue City, Cebu 6014** Postal Code

8. Issuer's telephone number, including area code **(032) 236-8390**
9. Former name, former address and former fiscal year, if changed since last report **N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
- | Title of each Class | Number of shares of common stock
Outstanding and Amount of Debt outstanding |
|----------------------|--|
| Common Shares | 3,429,375,000 |

11. Are any or all of the securities listed on a Stock Exchange?
Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange, Inc. **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements are filed as part of this form 17-Q.

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations are filed as part of this form 17-Q.

METRO RETAIL STORES GROUP, INC.**UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION****AS AT JUNE 30, 2020****(With Comparative Audited Figures as at December 31, 2019)**

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	P1,171,415,564	P2,909,123,300
Short-term investments (Note 4)	770,644,434	629,574,974
Receivables (Note 5)	573,088,650	1,149,127,596
Merchandise inventories (Note 6)	5,260,141,035	4,636,576,270
Other current assets (Note 7)	566,308,161	491,626,178
Total Current Assets	8,341,597,844	9,816,028,318
Noncurrent Assets		
Property and equipment (Note 8)	5,019,695,258	4,700,483,138
Right-of-use assets (Note 22)	6,863,202,501	7,512,796,866
Deferred tax assets - net (Note 21)	417,515,568	309,275,514
Other noncurrent assets (Note 9)	884,635,101	1,026,033,995
Total Noncurrent Assets	13,185,048,428	13,548,589,513
TOTAL ASSETS	P21,526,646,272	P23,364,617,831
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 10)	P4,026,735,954	P5,409,499,852
Contract liabilities (Note 11)	76,536,711	103,525,837
Income tax payable	14,186,153	230,178,863
Lease liabilities - current portion (Note 22)	1,006,748,959	949,045,108
Loans Payable (Note 12)	500,000,000	-
Total Current Liabilities	5,624,207,777	6,692,249,660
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 22)	6,359,658,424	6,870,042,722
Retirement benefit obligation (Note 19)	528,827,098	500,623,022
Other noncurrent liabilities (Note 13)	68,412,488	65,737,958
Total Noncurrent Liabilities	6,956,898,010	7,436,403,702
Total Liabilities	12,581,105,787	14,128,653,362
Equity		
Capital stock (Note 14)	3,429,375,000	3,429,375,000
Additional paid-in capital (Note 14)	2,455,542,149	2,455,542,149
Retained earnings (Note 14)	3,054,934,277	3,345,357,261
Remeasurement gains on defined benefit obligation (Note 19)	5,690,059	5,690,059
Total Equity	8,945,541,485	9,235,964,469
TOTAL LIABILITIES AND EQUITY	P21,526,647,272	P23,364,617,831

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020 (Unaudited)	2019 (Unaudited) As Restated (Note 2)	2020 (Unaudited)	2019 (Unaudited) As Restated (Note 2)
REVENUE				
Net sales (Note 15)	₱6,738,330,243	₱8,870,440,507	₱15,234,180,886	₱16,598,879,313
Rental (Note 22)	9,826,350	63,279,659	80,893,702	121,687,297
	6,748,156,593	8,933,720,166	15,315,074,588	16,720,566,610
COSTS AND EXPENSES				
Cost of sales (Note 17)	5,394,602,396	6,828,508,086	12,111,790,933	12,869,612,886
Operating expenses (Note 18)	1,356,386,982	1,748,683,937	3,182,669,797	3,495,167,348
	6,750,989,378	8,577,192,023	15,294,460,730	16,364,780,234
OPERATING INCOME (LOSS)	(2,832,785)	356,528,143	20,613,858	355,786,376
OTHER INCOME (CHARGES) (Note 16)				
Interest and other income	18,146,926	238,639,764	153,435,593	478,051,042
Finance costs	(147,114,055)	(149,314,684)	(293,014,253)	(301,903,492)
	(128,967,129)	89,325,080	(139,578,660)	176,147,550
INCOME / (LOSS) BEFORE INCOME TAX	(131,799,914)	445,853,223	(118,964,802)	531,933,926
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)				
Current	(6,873,161)	166,342,418	30,170,075	229,556,178
Deferred	(32,285,464)	(33,497,173)	(64,474,393)	(73,561,376)
	(39,158,625)	132,845,245	(34,304,318)	155,994,802
NET INCOME / (LOSS)	(92,641,289)	313,007,978	(84,660,484)	375,939,124
OTHER COMPREHENSIVE INCOME				
<i>Not to be reclassified to profit or loss in subsequent periods</i>				
Remeasurement gains (losses) on defined benefit obligation	-	-	-	-
Income tax effect	-	-	-	-
	-	-	-	-
TOTAL COMPREHENSIVE INCOME / (LOSS)	(₱92,641,289)	₱313,007,978	(₱84,660,484)	₱375,939,124
Basic/Diluted Earnings Per Share (Note 23)	(₱0.03)	₱0.09	(₱0.02)	₱0.11

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended June 30, 2020 and 2019

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 19)	Total
Balances at December 31, 2019 (Audited)	₱3,429,375,000	₱2,455,542,149	₱3,345,357,261	₱5,690,059	₱9,235,964,469
Net income for the year	-	-	(84,660,484)	-	(84,660,484)
Other comprehensive loss	-	-	-	-	-
Total comprehensive income	-	-	(84,660,484)	-	(84,660,484)
Declaration of dividends (Note 14)	-	-	(205,762,500)	-	(205,762,500)
Balances at June 30, 2020 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱3,054,934,277	₱5,690,059	₱8,945,541,485
Balances at December 31, 2018 (Audited)	₱3,429,375,000	₱2,455,542,149	₱2,775,475,030	₱42,627,159	₱8,703,019,338
Net income for the year	-	-	375,939,124	-	375,939,124
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	375,939,124	-	375,939,124
Declaration of dividends (Note 14)	-	-	(205,762,500)	-	(205,762,500)
Balances at June 30, 2019 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱2,945,651,654	₱42,627,159	₱8,873,195,962

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.**UNAUDITED INTERIM STATEMENTS OF CASH FLOWS**

	For the Six-month Periods Ended June 30	
		2019
		As Restated
	2020	(Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(₱118,964,803)	₱531,933,926
Adjustments for:		
Depreciation - ROU assets (Note 22)	649,594,365	581,434,172
Depreciation and amortization - PPE (Note 8)	228,930,815	241,097,441
Finance costs (Note 16)	293,014,253	301,903,492
Net gain on insurance claims (Notes 16)	(104,364,149)	(372,771,327)
Interest income (Note 16)	(27,147,126)	(58,875,071)
Retirement benefits costs (Note 19)	29,091,450	25,164,297
Foreign currency exchange losses (gains) (Note 16)	(645,474)	(4,653,159)
Operating income before working capital changes	949,509,331	1,245,233,771
Decrease (increase) in:		
Receivables	482,634,645	63,547,324
Merchandise inventories	(623,564,765)	(302,905,295)
Other current assets	(96,223,160)	42,676,583
Increase (decrease) in:		
Trade and other payables	(1,395,268,135)	(679,179,766)
Contract liabilities	(26,989,126)	(39,018,684)
Other noncurrent liabilities	2,674,530	3,083,378
Cash flows provided by (used in) operations	(707,226,680)	333,437,311
Proceeds from insurance claims on merchandise inventory and business interruption	192,313,377	621,307,293
Income tax paid	(268,387,269)	(217,403,893)
Interest received	32,602,199	55,636,184
Interest paid	(528,251)	(762,840)
Net cash provided by (used in) operating activities	(751,226,624)	792,214,055
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 8)	(548,142,936)	(941,706,386)
Decrease (increase) in short-term investments	(141,069,460)	197,514,630
Decrease (increase) in other noncurrent assets	141,398,895	(21,497,796)
Net cash used in investing activities	(547,813,501)	(765,689,552)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of:		
Principal portion of lease liabilities (Note 22)	(452,680,447)	(348,279,310)
Interest portion of lease liabilities (Note 22)	(280,883,394)	(294,521,605)
Cash dividends	(205,749,244)	(205,762,279)
Proceeds from loans payable	500,000,000	-
Net cash used in financing activities	(439,313,085)	(848,563,194)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,738,353,210)	(822,038,691)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 16)	645,474	4,653,159
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,909,123,300	3,606,179,404
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	₱1,171,415,564	₱2,788,793,872

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

NOTES TO UNAUDITED INTERIM CONDENSED 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 with a corporate life of 50 years. 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 13).

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 unaudited interim condensed financial statements of the Company as at June 30, 2020 and for the six-month periods ended June 30, 2020 and 2019 were approved and authorized by the Board of Directors (BOD) on August 12, 2020.

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

Basis of Preparation

The unaudited interim condensed 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.

The accompanying unaudited interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2019.

Statement of Compliance

The accompanying unaudited interim condensed financial statements as of June 30, 2020 and for the six-month periods ended June 30, 2020 and 2019 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the following new accounting pronouncements which became effective January 1, 2020.

In 2019, the Company applied PFRS 16, Leases. The nature and effect of changes as a result of adoption of this new accounting standard are described below.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Company has lease agreements for its stores, warehouses and corporate office space. Before the adoption of PFRS 16, the Company classified its leases (as lessee) at the inception date as operating lease. The Company also has a lease arrangement covering various computer equipment used in the operations. Before the adoption of PFRS 16, the Company classified this lease (as lessee) as finance lease.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases using the lease-by-lease approach except for short-term leases and leases of low-value assets.

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid lease payments, advance rentals and deferred charges previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

As of January 1, 2019:

- Right-of-use assets of ₱8,259.01 million were recognized and presented separately in the statement of financial position. This includes reclassification of Property, plant and equipment amounting to ₱67.75 million, net of accumulated depreciation, pertaining to portion of leased assets under the finance lease in the prior year.
- Lease liabilities amounting to ₱8,044.06 million were recognized and presented separately in the statement of financial position. This includes reclassification of Finance lease liability amounting to ₱65.39 million, pertaining to the finance lease in the prior year.
- Prepayments of ₱212.59 million related to advance rentals and deferred charges representing excess of principal amount of the security deposits over its fair value were reclassified to right-of-use assets.

For the period ended June 30, 2019 as restated, the impact of the adoption of PFRS 16 on the statement of comprehensive income follows:

	As restated	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Rental	₱252,642,610	₱894,343,735	(₱641,701,125)
Depreciation and amortization of right-of-use assets	581,434,172	—	581,434,172
Finance costs	301,903,492	8,008,294	293,895,198
Net income	375,939,124	539,478,895	(163,539,771)

Effective beginning on or after January 1, 2020

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments did not have significant impact on the financial statements of the Company.

Effective beginning on or after January 1, 2021

- 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, 2021, 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.

3. Cash and Cash Equivalents

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash on hand	₱132,674,999	₱156,930,765
Cash in banks	730,627,991	2,323,026,855
Cash equivalents	308,112,574	429,165,680
	₱1,171,415,564	₱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.

Interest income earned from cash and cash equivalents amounted to ₱10.04 million and ₱54.30 million for the six-month periods ended June 30, 2020 and 2019, respectively (see Note 16).

4. 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 2.5% to 4.0% and 5.75% to 6.25% in 2020 and 2019, respectively.

Short term investments as of June 30, 2020 and December 31, 2019 amounted to ₱770.64 million and ₱629.57 million, respectively.

Interest income earned from short-term investments amounted to ₱17.11 million and ₱4.58 million for the six-month periods ended June 30, 2020 and 2019, respectively (see Note 16).

5. Receivables

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade		
Third parties	₱458,321,796	₱952,711,790
Related parties (Note 20)	443,886	1,409,351
Nontrade		
Receivable from insurance	16,414,920	104,364,149
Rentals	33,153,217	37,449,489
Related parties (Note 20)	25,926,150	20,934,612
<i>(forward)</i>		

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Advances to employees and officers	13,253,170	4,176,287
Accrued interest receivable	9,063,735	14,518,808
Others	28,124,188	25,175,522
	584,701,062	1,160,740,008
Less allowance for expected credit losses	11,612,412	11,612,412
	₱573,088,650	₱1,149,127,596

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

Receivable from insurance consists of insurance claims for inventory loss due to fire amounting to ₱16.41 million and ₱104.36 million as of June 30, 2020 and December 31, 2019, respectively.

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.

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 receivables from third parties follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning of year	₱11,612,412	₱11,612,412
Provision for impairment of receivables	-	-
Write-off	-	-
End of year	₱11,612,412	₱11,612,412

6. Merchandise Inventories

The rollforward analysis of this account follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning inventory	₱4,636,576,270	₱3,589,605,171
Add purchases - net	12,719,731,495	29,601,659,711
Cost of goods available for sale	17,356,307,765	33,191,264,882
Less cost of merchandise sold (Note 17)	(12,096,166,730)	(28,554,688,612)
Ending inventory	<u>₱5,260,141,035</u>	<u>₱4,636,576,270</u>

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

No inventories have been pledged as security for the Company's obligations as at June 30, 2020 and December 31, 2019.

No allowance for obsolescence had been recognized as at June 30, 2020 and December 31, 2019.

The Company does not have any purchase commitments as at June 30, 2020 and December 31, 2019.

7. Other Current Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Prepayments	₱116,835,131	₱99,953,762
Input tax – net	124,292,614	–
Deferred input VAT - current	72,254,430	70,964,241
Supplies	68,317,028	61,266,986
Advances to trade suppliers		
Related parties (Note 20)	173,274,853	234,245,539
Third parties	185,901	14,047,446
Security deposits – current	11,189,990	11,189,990
	<u>566,349,947</u>	<u>491,667,964</u>
Less allowance for impairment losses	41,786	41,786
	<u>₱566,308,161</u>	<u>₱491,626,178</u>

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

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 losses for other current assets follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning of year	₱41,786	₱5,984,803
Provision for impairment losses	-	(5,943,017)
End of year	₱41,786	₱41,786

8. Property and Equipment

For the six-month periods ended June 30, 2020 and 2019, total additions to property and equipment amounted to ₱548.14 million and ₱964.81 million, respectively, while depreciation and amortization amounted to ₱228.93 million and ₱241.10 million for the six-month periods ended June 30, 2020 and 2019, respectively.

There are no items of property and equipment that are pledged as security to liabilities as at June 30, 2020 and December 31, 2019.

There are no contractual purchase commitments for property and equipment as at June 30, 2020 and December 31, 2019.

As of June 30, 2020 and December 31, 2019, the Company's net book value of property and equipment amounted to ₱5,019.70 million and ₱4,700.48 million, respectively.

9. Other Noncurrent Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Deposits	₱472,841,891	₱464,311,328
Advances to nontrade suppliers		
Third parties	191,414,445	213,594,590
Related parties (Note 20)	122,624,956	242,260,895
Deferred input VAT	134,694,881	142,808,254
	921,576,173	1,062,975,067
Less allowance for impairment losses	36,941,072	36,941,072
	₱884,635,101	₱1,026,033,995

Deposits are payments to lessors for advance rental and security deposits and utility companies for meter deposits. Security deposits, less any unpaid rent and other charges, are refundable to the Company at the end of contract term.

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 which is not recoverable due to the acceleration of lease termination date as a result of the closure of a non-performing store in 2018.

Movements in the allowance for impairment losses for other noncurrent assets follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning of year	₱36,941,072	₱49,043,926
Provision for impairment losses	-	6,226,120
Write-off	-	(18,328,974)
End of year	₱36,941,072	₱36,941,072

10. Trade and Other Payables

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade		
Third parties	₱2,502,446,340	₱3,559,741,196
Related parties (Note 20)	-	66,477,560
Nontrade		
Third parties	624,448,425	818,801,631
Related parties (Note 20)	27,016,486	6,582,946
Accrued expenses	422,362,649	384,938,764
Credit cash bonds	326,902,512	328,537,168
Output VAT - net	-	115,835,443
Others	123,558,542	128,585,144
	₱4,026,734,954	₱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:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Suppliers and contractors	₱128,956,722	₱107,416,515
Rentals	74,547,717	61,595,227
Utilities	90,041,374	67,493,995
Marketing-related cost	29,281,335	37,418,704
Professional fees	17,127,309	13,370,954
Other accruals	82,408,192	97,643,369
	₱422,362,649	₱384,938,764

Other accruals pertain to sick leave and vacation leave credits, government remittances, and other operating related expenses, which include accrued expenses related to the closure of non-performing store in 2018.

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 applied against the account holder's remaining balance 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.

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, and other sundry payables.

11. Contract Liabilities

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Gift check outstanding	₱33,346,115	₱51,457,929
Stored value cards	17,845,741	26,719,703
Accrued customer loyalty reward	25,344,855	25,348,205
	₱76,536,711	₱103,525,837

These items can only be redeemed from the Company's own stores.

12. Loans Payable

On April 6, 2020, the Company availed a short-term notes payable from a local bank amounting to ₱500.00 million, bearing interest at prevailing market rates. The interest payable from these notes range from 4.0% to 4.1%.

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 June 30, 2020.

Finance cost pertaining to loans payable amounted to ₱5.12 million and nil for the six-month periods ended June 30, 2020 and 2019, respectively.

Loans payable as of June 30, 2020 and December 31, 2019 amounted to ₱500.00 million and nil, respectively.

13. Other Noncurrent Liabilities

Other noncurrent liabilities pertain to security deposits from tenants for the lease of space in the Company's stores. These security deposits are refundable to the tenants upon termination of contract.

Other noncurrent liabilities as of June 30, 2020 and December 31, 2019 amounted to ₱68.41 million and ₱65.74 million, respectively.

14. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of June 30, 2020 and December 31, 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.

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 June 30, 2020 and December 31, 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 to be 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.

15. Net sales

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

The following table disaggregates the Company's revenue by geographical markets and major goods or service lines.

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Geographical markets		
Luzon	₱5,552,954,123	₱6,572,461,900
Visayas	9,681,226,763	10,026,417,413
Total revenue from contracts with customers	₱15,234,180,886	₱16,598,879,313
Major goods/service lines		
Food retail	₱12,231,218,394	₱10,990,825,029
General Merchandise	3,002,962,492	5,608,054,284
Total revenue from contracts with customers	₱15,234,180,886	₱16,598,879,313

16. Other income (Charges)

Interest and other income

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Gain on insurance claims	₱104,364,149	₱372,771,327
Interest income (Notes 3 and 4)	27,147,126	58,875,071
Foreign currency exchange gains	645,474	4,653,159
Scrap sales	2,223,692	4,314,393
Others	19,055,152	37,437,092
	₱153,435,593	₱478,051,042

Gain on insurance claims pertains to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims relating to the damaged store in 2018.

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

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Finance cost on lease liabilities (Note 22)	₱280,883,394	₱294,521,605
Interest expense on cash bond (Note 10)	7,005,859	7,381,887
Interest expense on bank loans (Note 12)	5,125,000	-
	₱293,014,253	₱301,903,492

17. Cost of Sales

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Cost of merchandise sold (Note 6)	₱12,096,166,730	₱12,850,458,238
Others (Note 19)	15,624,203	19,154,648
	₱12,111,790,933	₱12,869,612,886

Others pertain to the direct labor and other overhead costs.

18. Operating Expenses

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Personnel cost (Note 19)	₱1,030,455,531	₱1,120,328,779
Depreciation and amortization Of right-of-use assets (Note 22)	649,594,365	581,434,172
Light, water and communications	366,348,477	404,648,428
Depreciation and amortization	228,871,030	240,890,672
Contracted services	187,838,551	186,394,833
Taxes and licenses	183,340,415	169,565,346
Repairs and maintenance	113,991,542	122,391,835
Supplies	80,070,587	105,762,186
Rental (Note 22)	56,794,381	252,642,610
Advertising	56,184,212	79,162,734
Insurance	49,278,836	45,102,673
Commission	40,954,175	43,995,260
Transportation and travel	38,943,425	53,265,964
Professional fees	35,133,198	37,653,165
Subscriptions	34,674,012	32,733,640
Others	30,197,060	19,195,051
	₱3,182,669,797	₱3,495,167,348

Others pertain to representation, entertainment, donations and contributions.

19. Personnel Cost

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Salaries and wages	₱851,292,124	₱940,197,774
Retirement benefit cost	29,091,450	25,164,297
Other employee benefits	161,618,617	168,932,763
	₱1,042,002,191	₱1,134,294,834

Personnel cost that were recognized as cost of sales amounted to ₱11.55 million and ₱13.96 million in 2020 and 2019, respectively.

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

As of June 30, 2020 the Company's retirement benefit obligation and remeasurement gains on the defined benefit obligation amounted to ₱528.83 million and ₱5.69 million, respectively. As of December 31, 2019, these amounted to ₱500.62 million and ₱5.69 million, respectively.

20. 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 maybe 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 June 30, 2020 and December 31, 2019 are as follows:

June 30, 2020

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 5), (c)	₱3,562,782	₱-	Noninterest-bearing and due in 30 days, not impaired
<i>Entities Under Common Control</i>			
Sale of goods (Note 5), (c)	385,978	443,886	Noninterest-bearing and due in 30 days, not impaired
Advances and Rental income (Note 5), (d)	45,540,219.83	25,926,150	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (Notes 7 and 9), (c)	467,643,825	295,899,809	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱322,269,845	

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 22), (b)	₱33,174,443	(₱799,713,585)	Noninterest-bearing and payable in 30 days, unsecured
Rent Expense (Note 10), (b)	84,607,478	(15,615,122)	Noninterest-bearing and payable in 30 days, unsecured
Advances (Note 10), (c)	13,761,306	(10,739,576)	Noninterest-bearing and due in 30 days, not impaired
Management fee (Note 10), (a)	22,319,589	-	Noninterest-bearing and payable in 30 days, unsecured

	Amount/Volume	Outstanding	Terms and Conditions
<i>Entities Under Common Control</i>			
Purchase of goods (Note 10), (c)	47,795,230	–	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (Note 10), (d)	21,696,519	(661,788)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(P826,730,071)	

December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 5), (c)	P20,182,674	P5,631,370	Noninterest-bearing and due in 30 days, not impaired
<i>Entities Under Common Control</i>			
Sale of goods (Note 5), (c)	1,380,537	1,409,351	Noninterest-bearing and due in 30 days, not impaired
Advances and rental income (Note 5), (d)	91,660,047	15,303,242	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (Notes 7 and 9), (c)	1,028,799,563	447,840,129	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		P470,184,092	

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 22), (b)	P1,701,740,198*	(P1,077,186,151)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 10), (a)	99,175,258	–	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase of goods (Note 10), (c)	178,242,225	(66,477,560)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (Note 10), (d)	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. 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.
- b. Rentals from leases for the Company's store spaces and warehouses. The Company recognized "Lease liabilities" for fixed rent and "Trade and other payables" for variable rent as of June 30, 2020 and December 31, 2019.
- c. The Company has short-term noninterest-bearing receivables/payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
- d. The Company has receivables/payables pertaining to rental transactions in the Company's stores. These are noninterest-bearing and are collectible within 30 days.

The Company has an approval requirement for all related party transactions. In the event that related party transactions exceed the materiality threshold, which is 10% of the Company's total assets based on its latest audited financial statements, a more extensive approval process is required.

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱930.45 million and ₱799.46 million in June 30, 2020 and December 31, 2019, respectively, which earn interest based on prevailing market interest rates.

21. Income Taxes

Provision for (benefit from) income tax consists of:

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Current	₱30,170,075	₱229,556,178
Deferred	(64,474,393)	(73,561,376)
	₱(34,304,318)	₱155,994,802

The current provision for (benefit from) income tax pertains to final and regular corporate income tax for the six-month periods ended June 30, 2020 and 2019.

As of June 30, 2020 and December 31, 2019, the Company's deferred tax assets amounted to ₱417.52 million and ₱309.28 million, respectively, which pertains to income tax effect of retirement benefit obligation, provision for impairment of assets, contract liability from customer loyalty program, nontaxable excess on insurance proceeds on damaged fixed assets and PFRS 16 adjustments.

22. 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:

June 30, 2020

	Right-of-Use: Land	Right-of-Use: Building	Right-of-Use: IT Equipment	Right-of-Use: Others	Right-of-Use: Total
Cost					
At January 1, 2020	₱1,671,903,900	₱7,023,538,757	₱102,522,596	₱1,213,834	₱8,799,179,087
Lease modification	-	-	-	-	-
Additions	-	-	-	-	-
Asset retirement obligation	-	-	-	-	-
Disposals	-	-	-	-	-
At June 30, 2020	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087
Accumulated Depreciation and Amortization					
At January 1, 2020	265,700,613	958,408,226	61,545,082	728,300	1,286,382,221
Depreciation	132,503,167	504,555,153	12,171,895	364,150	649,594,365
Charge from asset retirement obligation	-	-	-	-	-
Disposals	-	-	-	-	-
At June 30, 2020	398,203,780	1,462,963,379	73,716,977	1,092,450	1,935,976,586
Net Book Value	₱1,273,700,120	₱5,560,575,378	₱28,805,619	₱121,384	₱6,863,202,501

December 31, 2019

	Right-of-Use: Land	Right-of-Use: Building	Right-of-Use: IT Equipment	Right-of-Use: Others	Right-of-Use: Total
Cost					
At January 1, 2019 as previously reported	₱-	₱-	₱-	₱-	₱-
Effect of adoption of standard	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
At January 1, 2019 as restated	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
Lease modification	-	-	(10,153,102)	-	(10,153,102)
Additions	38,860,506	466,535,864	-	-	505,396,370
Asset retirement obligation	-	-	-	-	-
Disposals	-	-	-	-	-
At December 31, 2019	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087

Accumulated Depreciation and Amortization

	₱-	₱-	₱-	₱-	₱-
At January 1, 2019 as previously reported					
Effect of adoption of standard	-	-	44,929,336	-	44,929,336
At January 1, 2019 as restated	-	-	44,929,336	-	44,929,336
Depreciation	265,700,613	958,408,226	16,615,746	728,300	1,241,452,885
Charge from asset retirement obligation	-	-	-	-	-
Disposals	-	-	-	-	-
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

The following are the amounts recognized in statement of income:

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Depreciation expense of right-of-use assets (Note 18)	₱649,594,365	₱581,434,172
Finance cost on lease liabilities (Note 16)	280,883,394	294,521,605
Expenses relating to short-term leases (Note 18)*	18,220,433	29,461,496
Variable lease payments (Note 18)*	38,573,948	223,181,114
Total amount recognized in statement of income	₱569,342,541	₱561,199,421

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

The rollforward analysis of lease liabilities follows:

As at January 1, 2020	₱7,819,087,830
Lease modification	-
Additions	-
Interest expense (Note 16)	280,883,394
Payments	(733,563,841)
As at June 30, 2020	₱7,366,407,383

Classification of lease liabilities as of June 30, 2020 is as follows:

Current portion	₱1,006,748,959
Noncurrent portion	6,359,658,424
As at June 30, 2020	₱7,366,407,383

Shown below is the maturity analysis of the undiscounted lease payments as of June 30, 2020:

Within one year	₱1,475,553,172
More than one year but not more than five years	32,744,942,015
More than five years	10,619,328,121

Operating leases – 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 five 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 ₱68.41 million and ₱65.74 million as of June 30, 2020 and December 31, 2019, respectively (Note 13).

Rental income amounted to ₱80.89 million and ₱121.69 million for the six-month periods ended June 30, 2020 and 2019, respectively.

23. Earnings Per Share

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

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Net income	(₱84,660,484)	₱375,939,124
Number of common shares	3,429,375,000	3,429,375,000
Basic/Diluted EPS	(₱0.02)	₱0.11

There are no potentially dilutive common shares as of June 30, 2020 and 2019.

24. 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.

25. Financial Instruments

Fair Value of Financial Instruments

As of June 30, 2020 and December 31, 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 end of reporting period.

Financial Liabilities

Due to the short-term nature of trade and other payables (excluding statutory payables), current portions of lease liabilities and finance lease liability, their carrying values approximate fair value at end of reporting period.

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 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 June 30, 2020 and December 31, 2019 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

June 30, 2020

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	P-	P2,502,446,340	P-	P2,502,446,340
Related parties	-	-	-	-
Nontrade				
Third parties	-	624,448,425	-	624,448,425
Related parties	-	27,016,486	-	27,016,486
Accrued expenses	-	422,362,649	-	422,362,649
Credit cash bonds	-	326,902,512	-	326,902,512
Lease liabilities	-	1,006,748,959	6,359,658,424	7,366,407,383
Others*	-	44,089,879	-	44,089,879
Other noncurrent liabilities	-	-	68,412,488	68,412,488
	P-	P4,954,015,250	P6,428,070,912	P11,382,086,162

**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	P-	P3,559,741,196	P-	P3,559,741,196
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
	P-	P6,620,791,969	P14,144,491,093	P20,765,283,062

**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:

June 30, 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	₱458,321,796	₱326,902,512	₱131,419,284	₱326,902,512
Related parties	443,886	-	443,886	-
Nontrade				
Receivable from insurance	16,414,920	-	16,414,920	-
Rentals	33,153,217	68,412,488	-	33,153,217
Related parties	25,926,150	-	25,926,150	-
Accrued interest receivable	9,063,735	-	9,063,735	-
Others*	15,562,645	-	15,562,645	-
	₱558,886,349	₱395,315,000	₱198,830,620	₱360,055,729

*excluding receivable from SSS amounting to ₱12,561,543

December 31, 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	₱328,537,168	₱624,174,622	₱328,537,168
Related parties	1,409,351	-	1,409,351	-
Nontrade				
Receivable from insurance	104,364,149	-	104,364,149	-
Rentals	37,449,489	65,737,958	-	37,449,489
Related parties	20,934,612	-	20,934,612	-
Accrued interest receivable	14,518,808	-	14,518,808	-
Others*	15,500,741	-	15,500,741	-
	₱1,146,888,940	₱394,275,126	₱780,902,283	₱365,986,657

*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 to third party and related parties for sales of inventory;
- 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 receivables

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade 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:

June 30, 2020

	Days past due					Total
	Current	< 30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	272,485,483	78,559,881	36,384,717	71,408,747	109,447,314	568,286,142
Expected credit loss	₱-	₱-	₱-	₱-	₱-	₱-

December 31, 2019

	Days past due					Total
	Current	< 30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	780,447,898	8,650,114	13,433,677	7,121,041	40,495,255	850,147,985
Expected credit loss	₱-	₱-	₱-	₱-	₱-	₱-

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning of year	₱11,612,412	₱11,612,412
Provision for impairment of receivables	-	3,703,304
Write-off	-	(3,703,304)
End of year	₱11,612,412	₱11,612,412

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.

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.

26. Seasonality of Operations

The Company experiences seasonal fluctuations in supermarket, department store and hypermarket 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.

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

Results of Operations

*Six-month period ended June 30, 2020 versus June 30, 2019 as restated**

**June 2019 was restated to adopt PFRS 16, Leases (Note 2)*

For the six-month period ended June 30, 2020, the Company's operating income decreased by ₱335.2 million driven mainly by the 8.4% decrease in revenue, offset by decline in operating expenses at 8.9% due to disrupted operations brought about by the COVID-19 outbreak and lease recognition due to PFRS 16.

In Other Income (Charges), the Company recognized insurance recoveries amounting to ₱104.4 million and ₱372.8 million as of June 30, 2020 and 2019, respectively. In addition, the adoption of PFRS 16, Leases resulted to a significant increase in recognition of finance cost on related lease liabilities amounting to ₱280.1 million and ₱293.9 million as of June 30, 2020 and 2019, respectively. Net income after tax after these two significant transactions resulted to a decrease of 122.5%.

Revenue

Net sales

For the six-month period ended June 30, 2020, our net sales were ₱15,234.2 million, a decrease of 8.2% compared to ₱16,598.9 million for the same period last year. Total food retail business increased by 11.3% over the same period last year due to the enhanced community quarantine that took effect in the middle of March 2020, as well as, the opening of two (2) new supermarket stores in the second half of 2019.

Total general merchandise business, however, declined by 46.5% 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.

Blended same store sales declined by 13.6% over the same period last year brought about by the decline in sales of our general merchandise business.

Rental income

For the six-month period ended June 30, 2020, our rental income was ₱80.9 million, a decrease of 33.5% compared to ₱121.7 million for the same period last year. Decrease in rental income is primarily due to the temporary closure of tenants as a result of the community quarantine implemented brought about by the COVID-19 outbreak.

Cost of sales

For the six-month period ended June 30, 2020, our cost of sales was ₱12,111.8 million, a decrease of 5.9% compared to ₱12,869.6 million for the same period last year. Cost of sales declined slightly slower 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 six-month period ended June 30, 2020, our operating expenses were ₱3,182.7 million, a decrease of 8.9% compared to ₱3,495.2 million for the same period last year.

Operating expenses for same stores, warehouses and shared services declined by 11.5% over the same period last year. The decrease is primarily driven by the temporary closure of all department stores due to COVID-19 pandemic.

Interest and other income

For the six-month period ended June 30, 2020, our interest and other income was ₱153.4 million, a decrease of 67.9% compared to ₱478.1 million for the same period last year.

The decrease was primarily due to 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 ₱372.8 million as of June 30, 2020 and 2019, respectively.

In addition, there is a decrease in interest income from money market placements due to lower placements coupled with a lower interest rates this year. This amounted to ₱27.1 million and ₱58.9 million in June 30, 2020 and 2019, respectively.

Finance costs

For the six-month period ended June 30, 2020, finance costs were ₱293.0 million, a decrease of 2.9% compared to ₱301.9 million for the same period last year. The decrease in finance costs is primarily driven by the adoption of PFRS 16 Leases as at January 1, 2019.

Provision for (benefit from) income tax

For the six-month period ended June 30, 2020, our benefit from income tax was ₱34.3 million, a decrease of 122.0% compared to provision for income tax of ₱156.0 million for the six-month period ended June 30, 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 six-month period ended June 30, 2020, our net loss was ₱84.7 million, a decrease of 122.5% compared to the net income of ₱375.9 million for the six-month period ended June 30, 2019.

Financial Position

As of June 30, 2020 and December 31, 2019, our net current assets, or the difference between total current assets and total current liabilities, were ₱2,717.4 million and ₱3,123.8 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of June 30, 2020 and December 31, 2019 were ₱8,341.6 million and ₱9,816.0 million, respectively. The decrease of 15.0% of current assets is significantly due to decrease of cash and cash equivalents and receivables.

As of June 30, 2020, short-term investment totaled ₱770.6 million, receivables totaled ₱573.1 million, merchandise inventories totaled ₱5,260.1 million and other current assets totaled ₱566.3 million. As of December 31, 2019, short-term investment totaled ₱629.6 million, receivables totaled ₱1,149.1 million, merchandise inventories totaled ₱4,636.6 million and other current assets totaled ₱491.6 million.

As of June 30, 2020, cash and cash equivalents amounted to ₱1,171.4 million, a decrease of 59.7% from ₱2,909.1 million as of December 31, 2019. The decrease were mainly attributable to additions to property and equipment amounting to ₱548.1 million, settlement of trade payables of ₱1,395.3 million and payment of cash dividends of ₱205.7 million.

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 June 30, 2020 and December 31, 2019 were ₱13,185.0 million and ₱13,548.6 million, respectively. The decrease of 2.7% in noncurrent assets were a result of the depreciation and amortization of right-of-use assets amounting to ₱649.6 million and of the decrease in other noncurrent assets amounting to ₱141.4 million, offset by the increase in property and equipment amounting to 319.2 million and increase in deferred tax assets amounting to ₱108.2 million.

Current Liabilities

Total current liabilities as of June 30, 2020 and December 31, 2019 were ₱5,624.2 million and ₱6,692.2 million, respectively. As of June 30, 2020 and December 31, 2019, trade and other payables totaled ₱4,026.7 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 ₱500.0 million and nil as of June 30, 2020 and December 31, 2019, respectively.

Noncurrent liabilities

Total noncurrent liabilities as of June 30, 2020 and December 31, 2019 were ₱6,956.9 million and ₱7,436.4 million, respectively. The decrease of 6.4% was primarily due to the decrease in noncurrent portion of lease liabilities, offset by the increase in retirement benefit obligation and other noncurrent liabilities.

Cash Flows

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

	For the six-month periods ended June 30,	
	2020	2019
	(₱ million)	
Net cash flows provided by (used in) operating activities	(751.2)	792.2
Net cash flows used in investing activities	(547.8)	(765.7)
Net cash flows used in financing activities	(439.3)	(848.5)
Net decrease in cash	<u>(1,738.3)</u>	<u>(822.0)</u>

Net cash flows provided by (used in) operating activities

Our net cash flows used in operating activities for the six-month period ended June 30, 2020 was ₱751.2 million, which comprised operating income before working capital changes of ₱949.5 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 decrease in trade and other payables of ₱1,395.3 million, increase in merchandise inventories of ₱623.6 million and increase in other current assets of ₱96.2 million, offset by the decrease in receivables of ₱482.6 million.

For the six-months period ended June 30, 2019, net cash flows provided by operating activities was ₱792.2 million, which comprised operating income before working capital changes of ₱1,245.2 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 decrease in trade and other payables of ₱679.2 million, increase in merchandise inventories of ₱302.9 million, offset by the decrease in receivables of ₱63.5 million and decrease in other current assets of ₱42.7 million.

Net cash flows used in investing activities

For the six-month period ended June 30, 2020, net cash flows used in investing activities was ₱547.8 million, which resulted from the additions to property and equipment primarily resulting from the construction and fit outs of new stores amounting to ₱548.1 million, increase in short-term investments of ₱141.1 million, offset by the decrease in other noncurrent assets of ₱141.4 million.

For the six-month period ended June 30, 2019, net cash flows used in investing activities was ₱765.7 million, which resulted from the additions to property and equipment primarily resulting from the construction and fit outs of new stores amounting to ₱941.7 million, increase in other noncurrent assets amounting to ₱21.5 million, offset by the decrease in short-term investments amounting to ₱197.5 million.

Net cash flows used in financing activities

For the six-month period ended June 30, 2020, net cash flows used in financing activities was ₱439.3 million, which resulted from the payment of lease liabilities recognized as a result of PFRS 16 adoption amounting to ₱733.6 million, payment of cash dividends of ₱205.7 million, offset by the proceeds from loans payable of ₱500.0 million.

For the six-month period ended June 30, 2019, net cash flows used in financing activities was ₱848.5 million, which resulted from the payment of lease liabilities recognized as a result of PFRS 16 adoption amounting to ₱642.8 million and payment of cash dividends of ₱205.8 million.

Indebtedness

The Company has an outstanding loans payable of ₱500.0 million and nil as of June 30, 2020 and December 31, 2019. The short-term loans payable were obtained to support working capital requirements.

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

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

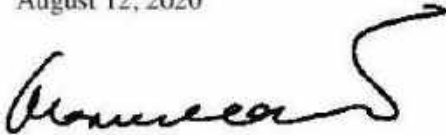
METRO RETAIL STORES GROUP, INC.

Issuer.....

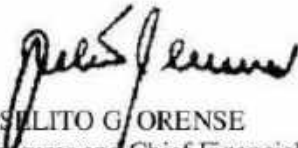
By:



FRANK S. GAISANO
Chairman and Chief Executive Officer
August 12, 2020



MANUEL C. ALBERTO
President and Chief Operating Officer
August 12, 2020



JOSLLITO G. ORENSE
Treasurer and Chief Financial Officer
August 12, 2020