

COVER SHEET

for
QUARTERLY FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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I	N	C	.																									

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

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

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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 **March 31, 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 MARCH 31, 2020****(With Comparative Audited Figures as at December 31, 2019)**

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	₱1,733,320,552	₱2,909,123,300
Short-term investments (Note 4)	718,546,095	629,574,974
Receivables (Note 5)	887,539,393	1,149,127,596
Merchandise inventories (Note 6)	4,806,140,400	4,636,576,270
Other current assets (Note 7)	558,904,004	491,626,178
Total Current Assets	8,704,450,444	9,816,028,318
Noncurrent Assets		
Property and equipment (Note 8)	4,984,546,920	4,700,483,138
Right-of-use assets (Note 21)	7,187,019,580	7,512,796,866
Deferred tax assets - net (Note 20)	348,400,259	309,275,514
Other noncurrent assets (Note 9)	887,793,960	1,026,033,995
Total Noncurrent Assets	13,407,760,719	13,548,589,513
TOTAL ASSETS	₱22,112,211,163	₱23,364,617,831
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 10)	₱4,350,616,950	₱5,409,499,852
Contract liabilities (Note 11)	85,337,019	103,525,837
Income tax payable	257,564,664	230,178,863
Lease liabilities - current portion (Note 21)	979,376,648	949,045,108
Total Current Liabilities	5,672,895,281	6,692,249,660
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 21)	6,612,680,742	6,870,042,722
Retirement benefit obligation (Note 18)	514,272,607	500,623,022
Other noncurrent liabilities (Note 12)	68,417,259	65,737,958
Total Noncurrent Liabilities	7,195,370,608	7,436,403,702
Total Liabilities	12,868,265,889	14,128,653,362
Equity		
Capital stock (Note 13)	3,429,375,000	3,429,375,000
Additional paid-in capital (Note 13)	2,455,542,149	2,455,542,149
Retained earnings (Note 13)	3,353,338,066	3,345,357,261
Remeasurement gains on defined benefit obligation (Note 18)	5,690,059	5,690,059
Total Equity	9,243,945,274	9,235,964,469
TOTAL LIABILITIES AND EQUITY	₱22,112,211,163	₱23,364,617,831

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.**UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	For the Three-Months Period ended March 31	
	2020 (Unaudited)	2019 As Restated (Note 2)
REVENUE		
Net sales (Note 14)	₱8,495,850,643	₱7,728,438,806
Rentals (Note 21)	71,067,352	58,407,638
	8,566,917,995	7,786,846,444
COSTS AND EXPENSES		
Cost of sales (Note 16)	6,717,188,537	6,041,104,800
Operating expenses (Note 17)	1,826,282,815	1,746,483,411
	8,543,471,352	7,787,588,211
OPERATING INCOME (LOSS)	23,446,643	(741,767)
OTHER INCOME (CHARGES) (Note 15)		
Interest and other income	135,288,667	239,411,278
Finance costs	(145,900,198)	(152,588,808)
	(10,611,531)	86,822,470
INCOME BEFORE INCOME TAX	12,835,112	86,080,703
PROVISION FOR INCOME TAX (Note 20)		
Current	37,043,236	63,213,760
Deferred	(32,188,929)	(40,064,203)
	4,854,307	23,149,557
NET INCOME	7,980,805	62,931,146
OTHER COMPREHENSIVE (LOSS) INCOME		
<i>Not to be reclassified to profit or loss in subsequent periods</i>		
Remeasurement (losses) gains on defined benefit obligation	-	-
Income tax effect	-	-
	-	-
TOTAL COMPREHENSIVE INCOME	₱7,980,805	₱62,931,146
Basic/Diluted Earnings Per Share (Note 22)	₱0.0023	₱0.0184

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended March 31, 2020 and 2019

	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Retained Earnings (Note 13)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 18)	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	-	-	7,980,805	-	7,980,805
Other comprehensive loss	-	-	-	-	-
Total comprehensive income	-	-	7,980,805	-	7,980,805
Declaration of dividends (Note 13)	-	-	-	-	-
Balances at March 31, 2020 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱3,353,338,066	₱5,690,059	₱9,243,945,274
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	-	-	62,931,146	-	62,931,146
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	62,931,146	-	62,931,146
Declaration of dividends (Note 13)	-	-	(205,762,500)	-	(205,762,500)
Balances at March 31, 2019 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱2,632,643,676	₱42,627,159	₱8,560,187,984

See accompanying Notes to Interim Condensed Financial Statements.

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

	For the Three-month Periods Ended March 31	
		2019
	2020	As Restated (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱12,835,113	₱86,080,703
Adjustments for:		
Depreciation - ROU assets (Note 21)	325,777,286	290,717,086
Depreciation and amortization - PPE (Note 8)	116,941,264	118,140,187
Finance costs (Note 15)	145,900,198	152,588,808
Net gain on insurance claims (Notes 15)	(104,364,573)	(190,521,187)
Interest income (Note 15)	(15,041,605)	(33,154,825)
Retirement benefits costs (Note 18)	14,689,516	10,940,131
Foreign currency exchange losses (gains) (Note 15)	(3,350,585)	(3,942,550)
Operating income before working capital changes	493,386,614	430,848,353
Decrease (increase) in:		
Receivables	321,479,034	210,372,836
Merchandise inventories	(169,564,130)	(267,671,239)
Other current assets	(79,770,146)	(41,267,453)
Increase (decrease) in:		
Trade and other payables	(1,063,019,905)	(836,734,910)
Contract liabilities	(18,188,818)	(15,832,623)
Other noncurrent liabilities	2,679,301	1,918,590
Cash flows used in operations	(512,998,050)	(518,366,446)
Proceeds from insurance claims on merchandise inventory and business interruption	38,763,827	-
Income tax paid	(4,100,930)	(5,362,910)
Interest received	20,751,520	29,920,597
Interest paid	(418,127)	(484,010)
Net cash used in operating activities	(458,001,760)	(494,292,769)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 8)	(401,005,046)	(424,353,457)
Decrease (increase) in short-term investments	138,240,035	100,000,000
Decrease (increase) in other noncurrent assets	(88,971,122)	(110,908,822)
Net cash used in investing activities	(351,736,133)	(435,262,279)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of:		
Principal portion of lease liabilities (Note 21)	(227,030,440)	(170,697,441)
Interest portion of lease liabilities (Note 21)	(142,385,000)	(148,844,221)
Net cash used in financing activities	(369,415,440)	(319,541,662)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,179,153,333)	(1,249,096,710)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 15)	3,350,585	3,942,550
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)	₱1,733,320,552	₱2,361,025,244

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 March 31, 2020 and for the three-month periods ended March 31, 2020 and 2019 were approved and authorized by the Board of Directors (BOD) on May 14, 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 March 31, 2020 and for the three-month periods ended March 31, 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 March 31, 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	₱121,638,114	₱438,212,722	(₱316,574,608)
Depreciation and amortization of right-of-use assets	290,717,086	—	290,717,086
Finance costs	152,588,808	4,124,073	148,464,735
Net income	62,931,146	148,756,196	(85,825,050)

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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash on hand	₱172,165,639	₱156,930,765
Cash in banks	1,310,672,691	2,323,026,855
Cash equivalents	250,482,222	429,165,680
	₱1,733,320,552	₱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 ₱7.75 million and ₱28.50 million for the three-month periods ended March 31, 2020 and 2019, respectively (see Note 15).

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 3.25% to 4.5% and 5.75% to 6.25% in 2020 and 2019, respectively.

Short term investments as of March 31, 2020 and December 31, 2019 amounted to ₱718.55 million and ₱629.57 million, respectively.

Interest income earned from short-term investments amounted to ₱7.29 million and ₱4.65 million for the three-month periods ended March 31, 2020 and 2019, respectively (see Note 15).

5. Receivables

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade		
Third parties	₱612,739,226	₱952,711,790
Related parties (Note 19)	496,190	1,409,351
Nontrade		
Receivable from insurance	169,964,471	104,364,149
Rentals	42,475,109	37,449,489
Related parties (Note 19)	31,006,964	20,934,612
<i>(forward)</i>		

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Advances to employees and officers	6,476,423	4,176,287
Accrued interest receivable	8,808,892	14,518,808
Others	27,184,530	25,175,522
	899,151,805	1,160,740,008
Less allowance for expected credit losses	11,612,412	11,612,412
	₱887,539,393	₱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 ₱169.96 million and ₱104.36 million as of March 31, 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:

	March 31, 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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning inventory	₱4,636,576,270	₱3,589,605,171
Add purchases - net	6,876,837,754	29,601,659,711
Cost of goods available for sale	11,513,414,024	33,191,264,882
Less cost of merchandise sold (Note 16)	(6,707,273,624)	(28,554,688,612)
Ending inventory	₱4,806,140,400	₱4,636,576,270

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 March 31, 2020 and December 31, 2019.

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

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

7. Other Current Assets

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Prepayments	₱117,116,947	₱99,953,762
Input tax – net	83,135,635	–
Deferred input VAT - current	73,029,043	70,964,241
Supplies	64,490,022	61,266,986
Advances to trade suppliers		
Related parties (Note 19)	191,094,029	234,245,539
Third parties	18,890,124	14,047,446
Security deposits – current	11,189,990	11,189,990
	558,945,790	491,667,964
Less allowance for impairment losses	41,786	41,786
	₱558,904,004	₱491,626,178

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:

	March 31, 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 three-month periods ended March 31, 2020 and 2019, total additions to property and equipment amounted to ₱401.01 million and ₱445.84 million, respectively, while depreciation and amortization amounted to ₱116.94 million and ₱118.14 million for the three-month periods ended March 31, 2020 and 2019, respectively.

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

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

As of March 31, 2020 and December 31, 2019, the Company's net book value of property and equipment amounted to ₱4,984.55 million and ₱4,700.48 million, respectively.

9. Other Noncurrent Assets

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Deposits	₱465,182,080	₱464,311,328
Advances to nontrade suppliers		
Third parties	197,085,966	213,594,590
Related parties (Note 19)	119,037,478	242,260,895
Deferred input VAT	143,429,508	142,808,254
	924,735,032	1,062,975,067
Less allowance for impairment losses	36,941,072	36,941,072
	₱887,793,960	₱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:

	March 31, 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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade		
Third parties	₱2,749,346,303	₱3,559,741,196
Related parties (Note 19)	7,507,021	66,477,560
Nontrade		
Third parties	737,728,226	818,801,631
Related parties (Note 19)	21,145,640	6,582,946
Accrued expenses	385,817,698	384,938,764
Credit cash bonds	328,988,906	328,537,168
Output VAT - net	-	115,835,443
Others	120,083,156	128,585,144
	₱4,350,616,950	₱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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Suppliers and contractors	₱116,384,514	₱107,416,515
Rentals	78,497,745	61,595,227
Utilities	71,816,532	67,493,995
Marketing-related cost	31,290,233	37,418,704
Professional fees	14,080,597	13,370,954
Other accruals	73,838,077	97,643,369
	₱385,907,698	₱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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Gift check outstanding	₱36,407,937	₱51,457,929
Stored value cards	23,580,877	26,719,703
Accrued customer loyalty reward	25,348,205	25,348,205
	₱85,337,019	₱103,525,837

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

12. 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 March 31, 2020 and December 31, 2019 amounted to ₱68.42 million and ₱65.74 million, respectively.

13. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of March 31, 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 March 31, 2020 and December 31, 2019.

Retained Earnings

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.

14. 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.

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Geographical markets		
Luzon	₱3,132,868,107	₱3,047,073,752
Visayas	5,362,982,536	4,681,365,054
Total revenue from contracts with customers	₱8,495,850,643	₱7,728,438,806
Major goods/service lines		
Food retail	₱6,371,116,572	₱5,352,162,140
General Merchandise	2,124,734,071	2,376,276,666
Total revenue from contracts with customers	₱8,495,850,643	₱7,728,438,806

15. Other income (Charges)

Interest and other income

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Gain on insurance claims	₱104,364,573	₱190,521,187
Interest income (Notes 3 and 4)	15,041,605	33,154,825
Foreign currency exchange gains	3,350,585	3,942,550
Scrap sales	1,428,067	2,372,554
Others	11,103,837	9,420,162
	₱135,288,667	₱239,411,278

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Finance cost on lease liabilities (Note 21)	P142,385,000	P148,844,221
Interest expense on cash bond (Note 10)	3,515,198	3,744,587
	P145,900,198	P152,588,808

16. Cost of Sales

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Cost of merchandise sold (Note 6)	P6,707,273,624	P6,031,096,149
Others (Note 18)	9,914,913	10,008,651
	P6,717,188,537	P6,041,104,800

Others pertain to the direct labor and other overhead costs.

17. Operating Expenses

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Personnel cost (Note 18)	P589,171,682	P555,910,252
Depreciation and amortization Of right-of-use assets (Note 21)	325,777,286	290,717,086
Light, water and communications	208,671,470	200,857,221
Depreciation and amortization	116,909,477	117,997,432
Rental (Note 21)	104,889,999	121,638,114
Contracted services	101,907,135	95,678,384
Taxes and licenses	96,026,220	90,255,813
Repairs and maintenance	75,424,371	72,397,161
Supplies	49,493,377	49,649,315
Advertising	37,512,211	40,511,674
Commission	26,327,123	20,253,199
Insurance	24,453,239	22,083,147
Professional fees	20,685,554	18,785,291
Transportation and travel	19,430,248	23,810,420
Subscriptions	16,840,800	16,554,498
Others	12,762,623	9,384,404
	P1,826,282,815	P1,746,483,411

Others pertain to representation, entertainment, donations and contributions.

18. Personnel Cost

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Salaries and wages	₱495,506,830	₱473,010,152
Retirement benefit cost	14,689,516	13,083,175
Other employee benefits	86,396,782	77,083,685
	₱596,593,128	₱563,177,012

Personnel cost that were recognized as cost of sales amounted to ₱7.42 million and ₱7.27 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 March 31, 2020 the Company's retirement benefit obligation and remeasurement gains on the defined benefit obligation amounted to ₱514.27 million and ₱5.69 million, respectively. As of December 31, 2019, these amounted to ₱500.62 million and ₱5.69 million, respectively.

19. 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 March 31, 2020 and December 31, 2019 are as follows:

March 31, 2020

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 5), (c)	₱1,859,976	₱2,836,472	Noninterest-bearing and due in 30 days, not impaired
<i>Entities Under Common Control</i>			
Sale of goods (Note 5), (c)	385,283	496,190	Noninterest-bearing and due in 30 days, not impaired
Advances and Rental income (Note 5), (d)	40,733,794	28,170,492	Noninterest-bearing and due in 30 days, not impaired

	Amount/Volume	Outstanding	Terms and Conditions
Advances to suppliers (Notes 7 and 9), (c)	207,542,186	310,131,507	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱341,634,661	

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 21), (b)	₱17,791,102	(₱934,673,878)	Noninterest-bearing and payable in 30 days, unsecured
Rent Expense (Note 10), (b)	50,301,929	(12,681,428)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 10), (a)	14,072,166	(6,237,114)	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase of goods (Note 10), (c)	41,092,530	(7,507,021)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (Note 10), (d)	11,086,696	(2,227,098)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		₱(963,326,539)	

December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Advances (Note 5), (c)	₱20,182,674	₱5,631,370	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		₱470,184,092	

	Amount/Volume	Outstanding	Terms and Conditions
<i>Parent Company (VDC)</i>			
Lease liabilities (Note 21), (b)	₱1,701,740,198*	(₱1,077,186,151)	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:

- 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.
- 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 March 31, 2020 and December 31, 2019.
- 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 ₱764.03 and ₱799.46 million in March 31, 2020 and December 31, 2019, respectively, which earn interest based on prevailing market interest rates.

20. Income Taxes

Provision for income tax consists of:

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Current	₱37,043,236	₱63,213,760
Deferred	(32,188,929)	(40,064,203)
	₱4,854,307	₱23,149,557

The current provision for income tax pertains to final and regular corporate income tax for the three-month periods ended March 31, 2020 and 2019.

As of March 31, 2020 and December 31, 2019, the Company's deferred tax assets amounted to ₱348.40 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.

21. 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:

March 31, 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 March 31, 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	66,251,584	253,257,680	6,085,947	182,075	325,777,286
Charge from asset retirement obligation	-	-	-	-	-
Disposals	-	-	-	-	-
At March 31, 2020	331,952,197	1,211,665,906	67,631,029	910,375	1,612,159,507
Net Book Value	₱1,339,951,703	₱5,811,872,851	₱34,891,567	₱303,459	₱7,187,019,580

December 31, 2019

	Right-of-Use: Land	Right-of-Use: Building	Right-of-Use: IT Equipment	Right-of-Use: Others	Right-of-Use: Total
<u>Cost</u>					
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
<u>Accumulated Depreciation and Amortization</u>					
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:

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Depreciation expense of right-of-use assets (Note 17)	₱325,777,286	₱290,717,086
Finance cost on lease liabilities (Note 15)	142,385,000	148,844,221
Expenses relating to short-term leases (Note 17)*	14,170,377	14,366,601
Variable lease payments (Note 17)*	90,719,622	107,271,513
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 15)	142,385,000
Payments	(369,415,440)
As at March 31, 2020	₱7,592,057,390

Classification of lease liabilities as of March 31, 2020 is as follows:

Current portion	₱979,376,648
Noncurrent portion	6,612,680,742
As at March 31, 2020	₱7,592,057,390

Shown below is the maturity analysis of the undiscounted lease payments as of March 31, 2020:

Within one year	₱1,509,323,995
More than one year but not more than five years	3,006,837,948
More than five years	10,739,780,133

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 ₱68.42 million and ₱65.74 million as of March 31, 2020 and December 31, 2019, respectively (Note 12).

Rental income amounted to ₱71.07 million and ₱58.41 million as of March 31, 2020 and 2019, respectively.

22. Earnings Per Share

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Net income	₱7,980,805	₱62,931,146
Number of common shares	3,429,375,000	3,429,375,000
Basic/Diluted EPS	₱0.0023	₱0.0184

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

23. 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 may be 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.

24. Financial Instruments

Fair Value of Financial Instruments

As of March 31, 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 March 31, 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.

March 31, 2020

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱-	₱2,749,346,303	₱-	₱2,749,346,303
Related parties	-	7,507,021	-	7,507,021
Nontrade				
Third parties	-	737,728,226	-	737,728,226
Related parties	-	21,145,640	-	21,145,640
Accrued expenses	-	385,817,698	-	385,817,698
Credit cash bonds	-	328,988,906	-	328,988,906
Lease liabilities	-	1,509,323,995	13,746,618,081	15,255,942,076
Others*	-	41,034,921	-	41,034,921
Other noncurrent liabilities	-	-	65,737,958	65,737,958
	₱-	₱5,780,892,710	₱13,812,356,039	₱19,593,248,749

**excluding statutory payables*

December 31, 2019

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

**excluding statutory payables*

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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

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

March 31, 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	₱612,739,226	₱328,988,906	₱283,750,320	₱328,988,906
Related parties	496,190	-	496,190	-
Nontrade				
Receivable from insurance	169,964,471	-	169,964,471	-
Rentals	42,475,109	68,417,259	-	42,475,109
Related parties	31,006,964	-	31,006,964	-
Accrued interest receivable	8,808,892	-	8,808,892	-
Others*	15,443,167	-	15,443,167	-
	₱880,934,019	₱397,406,165	₱509,470,004	₱371,464,015

*excluding receivable from SSS amounting to ₱11,741,363

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:

March 31, 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	542,890,778	65,575,405	21,604,655	31,051,547	68,064,949	729,187,334
Expected credit loss	P-	P-	P-	P-	P-	P-

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	P-	P-	P-	P-	P-	P-

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

	March 31, 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.

25. 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.

26. Events after the Reporting Period

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.

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

Results of Operations

*Three-month period ended March 31, 2020 versus March 31, 2019 as restated**

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

For the three-month period ended March 31, 2020, the Company's operating income increased by ₱24.3 million driven mainly by the 10.0% increase in revenue and lower increase rate of operating expenses at 4.6% 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 ₱190.5 million as of March 31, 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 ₱142.0 million and ₱148.5 million as of March 31, 2020 and 2019, respectively. Net income after tax after these two significant transactions resulted to a decrease of 87.3%.

Excluding the impact of the adoption of PFRS 16, the Company's operating results would have improved by 5.3%, while net income would have decreased by 50.7%.

Revenue

Net sales

For the three-month period ended March 31, 2020, our net sales were ₱8,495.9 million, an increase of 9.9% compared to ₱7,728.4 million for the same period last year. Total food retail business increased by 19.0% 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 10.6% over the same period last year due to the disruption and eventual closure of all department stores brought about by the COVID-19 outbreak in the first quarter of 2020.

Blended same store sales grew by 3.0% over the same period last year.

Rental income

For the three-month period ended March 31, 2020, our rental income was ₱71.1 million, an increase of 21.7% compared to ₱58.4 million for the same period last year. Increase in rental income is primarily due to the opening of new stores, which led to an increase in net leasable space, coupled with increase in rental fees due to escalation clauses in our existing lease agreements.

Cost of sales

For the three-month period ended March 31, 2020, our cost of sales was ₱6,717.2 million, an increase of 11.2% compared to ₱6,041.1 million for the same period last year. 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 three-month period ended March 31, 2020, our operating expenses were ₱1,826.3 million, an increase of 4.6% compared to ₱1,746.5 million for the same period last year. 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.

Operating expenses for same stores, warehouses and shared services declined by 4.7% over the same period last year. This is due to increased efficiency and cost saving measures, coupled with the temporary closure of all department stores due to COVID-19 pandemic.

Interest and other income

For the three-month period ended March 31, 2020, our interest and other income was ₱135.3 million, a decrease of 43.5% compared to ₱239.4 million for the same period last year.

The decrease 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 ₱104.4 million and ₱190.5 million as of March 31, 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 ₱15.0 million and ₱33.2 million in March 31, 2020 and 2019, respectively.

Finance costs

For the three-month period ended March 31, 2020, finance costs were ₱145.9 million, a decrease of 4.4% compared to ₱152.6 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 income tax

For the three-month period ended March 31, 2020, our provision for income tax was ₱4.9 million, a decrease of 78.8% compared to ₱23.1 million for the three-month period ended March 31, 2019. The decrease in provision for income tax was primarily due to the decrease in income before tax.

Net income

As a result of the foregoing, for the three-month period ended March 31, 2020, our net income was ₱8.0 million, a decrease of 87.3% compared to ₱62.9 million for the three-month period ended March 31, 2019.

Financial Position

As of March 31, 2020 and December 31, 2019, our net current assets, or the difference between total current assets and total current liabilities, were ₱3,031.6 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 March 31, 2020 and December 31, 2019 were ₱8,704.5 million and ₱9,816.0 million, respectively. The decrease of 11.3% of current assets is significantly due to decrease of cash and cash equivalents.

As of March 31, 2020, short-term investment totaled ₱718.5 million, receivables totaled ₱887.5 million, merchandise inventories totaled ₱4,806.1 million and other current assets totaled ₱558.9 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 March 31, 2020, cash and cash equivalents amounted to ₱1,733.3 million, a decrease of 40.4% from ₱2,909.1 million as of December 31, 2019. The decrease were mainly attributable to additions to property and equipment amounting to ₱401.0 million and settlement of trade payables of ₱1,060.2 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 March 31, 2020 and December 31, 2019 were ₱13,407.8 million and ₱13,548.6 million, respectively. The decrease of 1.0% in noncurrent assets were a result of the depreciation and amortization of right-of-use assets amounting to ₱325.8 million and of the decrease in other noncurrent assets amounting to ₱138.2 million, offset by the increase in property and equipment amounting to 284.1 million and increase in deferred tax assets amounting to ₱39.1 million.

Current Liabilities

Total current liabilities as of March 31, 2020 and December 31, 2019 were ₱5,672.9 million and ₱6,692.2 million, respectively. As of March 31, 2020 and December 31, 2019, trade and other payables totaled ₱4,350.6 million and ₱5,409.5 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Noncurrent liabilities

Total noncurrent liabilities as of March 31, 2020 and December 31, 2019 were ₱7,195.4 million and ₱7,436.4 million, respectively. The decrease of 3.2% 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 three-month periods ended March 31,	
	2020	2019
	(₱ million)	
Net cash flows used in operating activities	(458.0)	(494.3)
Net cash flows used in investing activities	(351.7)	(435.3)
Net cash flows used in financing activities	(369.4)	(319.5)
Net decrease in cash	<u>(1,179.1)</u>	<u>(1,249.1)</u>

Net cash flows used in operating activities

Our net cash flows used in operating activities for the three-month period ended March 31, 2020 was ₱458.0 million, which comprised operating income before working capital changes of ₱493.4 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 ₱1,063.0 million, increase in merchandise inventories of ₱169.6 million and increase in other current assets of ₱79.8 million, offset by the decrease in receivables of ₱321.5 million.

For the three-months period ended March 31, 2019, net cash flows used in operating activities was ₱494.3 million, which comprised operating income before working capital changes of ₱430.8 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 ₱836.7 million, increase in merchandise inventories of ₱267.7 million, increase in other current assets of ₱41.3 million, offset by the decrease in receivables of ₱210.4 million.

Net cash flows used in investing activities

For the three-month period ended March 31, 2020, net cash flows used in investing activities was ₱351.7 million, which resulted from the additions to property and equipment primarily resulting from the construction and fit outs of new stores amounting to ₱401.0 million, increase in other noncurrent assets amounting to ₱89.0 million, offset by the decrease in short-term investments amounting to ₱138.2 million.

For the three-month period ended March 31, 2019, net cash flows used in investing activities was ₱435.3 million, which resulted from the additions to property and equipment primarily resulting from the construction and fit outs of new stores amounting to ₱424.4 million, increase in other noncurrent assets amounting to ₱110.9 million, offset by the decrease in short-term investments amounting to ₱100.0 million.

Net cash flows used in financing activities

Cash flows used in financing activities for the three-month period ended March 31, 2020 and 2019 amounted to ₱369.4 million and ₱319.5 million, respectively. This resulted from the payment of lease liabilities recognized as a result of PFRS 16 adoption on January 1, 2019.

Indebtedness

The Company has no outstanding loans payable as of March 31, 2020 and December 31, 2019.

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.....

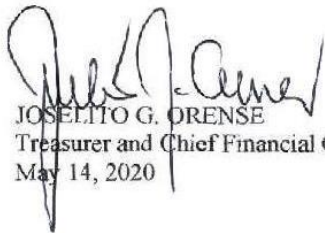
By:



FRANK S. GAISANO
Chairman and Chief Executive Officer
May 14, 2020



MANUEL C. ALBERTO
President and Chief Operating Officer
May 14, 2020



JOELITTO G. ORENSE
Treasurer and Chief Financial Officer
May 14, 2020