METRO

RETAIL STORES GROUP, INC.

ANNUAL REPORT 2016

GROWING WITH METRO
HONORING OUR HERITAGE.
CELEBRATING OUR PROGRESS.


METRO

"A clear vision for growth enables every enterprise
to achieve success. Amidst the changing times,
an enterprise must be able to transform and innovate,
while remaining true to its roots and heritage."

VICTOR S. GAISANO
Founder, Metro Gaisano

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MISSION-VALUES

We remain committed to the promise of providing an exciting experience through our distinct and quality products at reasonable prices, delivered by dedicated and dynamic employees who are guided by the Metro core values passed on by our founders.

Make our CUSTOMERS happy.

Engage with our COMMUNITIES.

Take care of our ENVIRONMENT.

Returns for our SHAREHOLDERS.

Our PEOPLE are our partners.

VISION STATEMENT

By 2020, we will be a multi-format retailer that is best-in class in sales, margins and OPEX per square meter of net selling space; profitably operating in strategic locations in the Philippines.

History and Milestones

The Metro Retail Stores Group, Inc. (MRSGI) traces its deep and rich heritage to post-war Cebu. In 1949, as Cebu was rising from the ashes of the war, Doña Modesta Gaisano and her children established White Gold Department Store with the goal of making quality goods available to hardworking Cebuanos. Guided by her pioneering spirit, the business grew and became known as the city's premier retailer.

By 1981, the enterprising Gaisano siblings established more businesses. In 1982, Doña Modesta's second youngest son Victor and his wife Sally opened the first Metro Gaisano Department Store and Supermarket in Colon, Cebu City. It was during this time that their children -- Margaret, Jack, Edward, and Frank -- first learned the ways of entrepreneurship, enabling them to have a keen understanding of their business and the retail industry. That very first store in Colon eventually paved the way for Metro Gaisano to become the Metro Department Store and Supermarket, the dominant retailer in the Visayas.

Steered by the core values set forth by its founder Victor, Metro undertook aggressive expansion to major cities outside Cebu, establishing its presence in key cities in Central, Western, and Eastern Visayas, as well as in Central Luzon, Metro Manila, and South Luzon.

Taking its expansion further, Metro then diversified into three different store formats with the establishment of Metro Department Store, Metro Supermarket, and Super Metro Hypermarket, now collectively known as the Metro Retail Stores Group, Inc. (MRSGI).

One year after becoming publicly listed, the company has now grown even stronger, with its network of 50 stores, employing around 8,100 store associates across the country and serving over 330,000 shoppers a day.

Victor Gaisano and his family successfully built a well-respected brand while staying true to the values of hard work and perseverance. 34 years later, these values are still held dear by the organization, inspiring every move it makes to earn the trust of even more customers as it looks forward to a greater future.

(L-R) Jack Gaisano, Edward Gaisano, Frank Gaisano, Margaret Gaisano-Ang; (seated) Sally Gaisano; (in frame) the late Victor Gaisano

Store Formats

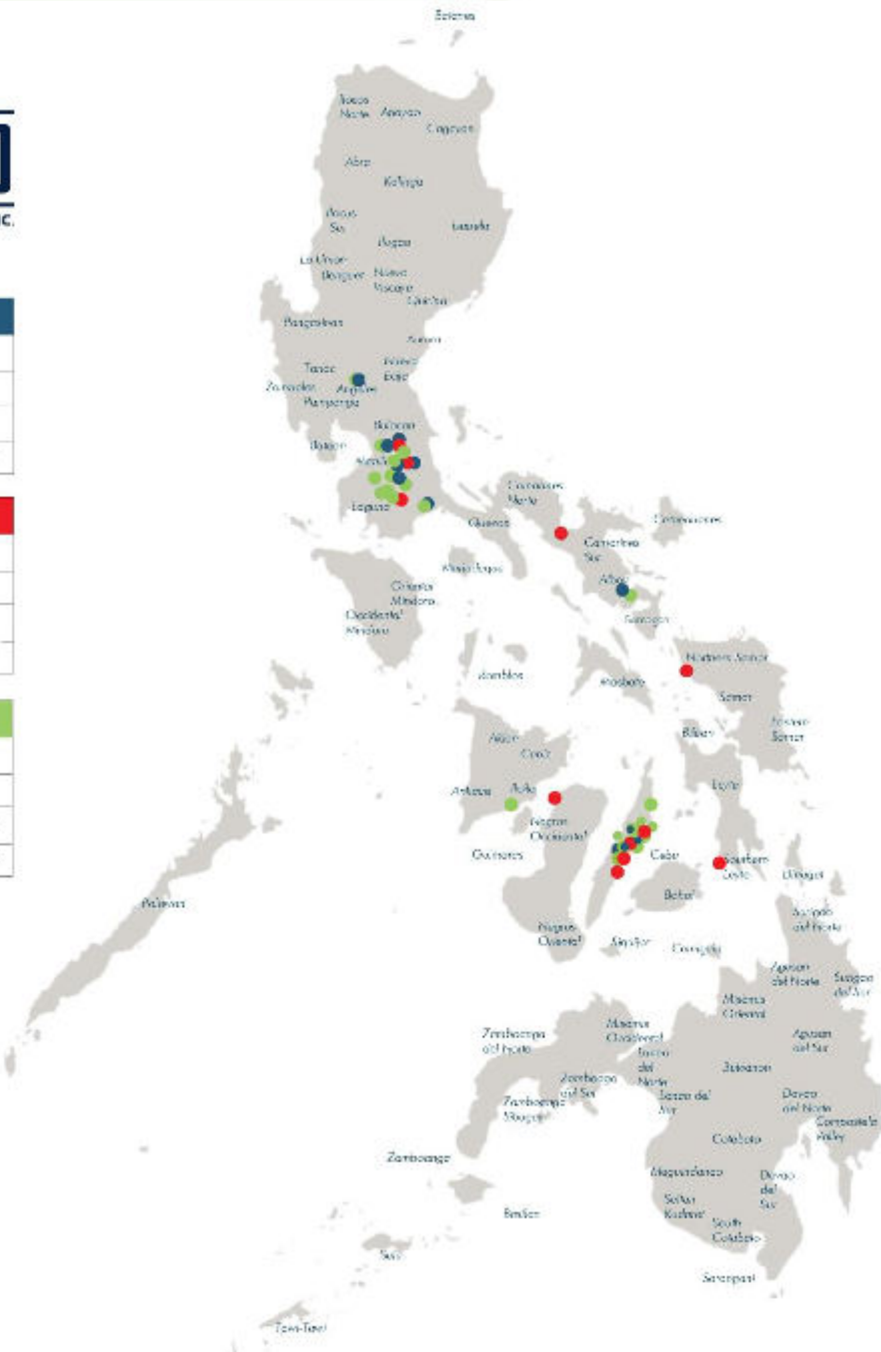
METRO
RETAIL STORES GROUP, INC.

YTD 2016

DEPARTMENT STORE	
Metro Manila	4
Luzon	4
Visayas	4
TOTAL	12

HYPERMARKET	
Metro Manila	1
Luzon	3
Visayas	9
TOTAL	13

SUPERMARKET	
Metro Manila	6
Luzon	4
Visayas	15
TOTAL	25



METRO DEPARTMENT STORE

Shoppers have come to rely on Metro Department Stores to provide quality choices and a wide product assortment at competitive prices. From basic needs to stylish buys, local and interntional brands alike – all these are made available and affordable to Filipinos in 12 locations across the country.

- Metro Alabang Town Center
- Metro Ayala Center Cebu
- Metro Colon
- Metro Fairview
- Metro Legazpi
- Metro Lucena
- Metro Mandaue
- Metro Market! Market!
- Metro Marquee Mall Angeles
- Metro The District Imus
- Metro Toledo
- Metro UP Town

METRO SUPERMARKET

Customers come regularly to Metro Supermarket for its wide range of products: from the freshest-of-the-fresh produce, meat, poultry, and seafood, to household supplies and its complete selection of international products. A world-class shopping experience is guaranteed in its 25 locations across the country that all adhere to global safety standards.

Metro Supermarket Alabang Town Center
Metro Supermarket Atria
Metro Supermarket Ayala Center Cebu
Metro Supermarket Binondo Lucky Chinatown
Metro Supermarket Carmen
Metro Supermarket Colon
Metro Supermarket Legazpi
Metro Supermarket Lucena
Metro Supermarket Mandaluyong
Metro Supermarket Mandaue
Metro Supermarket Market! Market!
Metro Supermarket Marquee Mall Angeles
Metro Supermarket Plaza 66 Newport City
Metro Supermarket The District Imus
Metro Supermarket Toledo

Metro Fresh 'N Easy Banilad
Metro Fresh 'N Easy Basak
Metro Fresh 'N Easy Lawton
Metro Fresh 'N Easy Mactan
Metro Fresh 'N Easy Minglanilla
Metro Fresh 'N Easy Punta
Metro Fresh 'N Easy Tabok
Metro Fresh 'N Easy Tabunok
Metro Fresh 'N Easy Umapad
Metro Wholesale Mart Colon

SUPER METRO HYPERMARKET

Busy individuals continue to find ease and convenience in the one-stop shopping experience offered by Super Metro Hypermarket. The expansive selection of general merchandise and food products in each of the 13 hypermarkets found across the country offers shoppers value for money.

- Super Metro Anonas
- Super Metro Antipolo
- Super Metro Bogo
- Super Metro Calamba
- Super Metro Calbayog
- Super Metro Carcar
- Super Metro Colon
- Super Metro Lapu-Lapu
- Super Metro Maasin
- Super Metro Mambaling
- Super Metro Naga
- Super Metro Panganiban
- Super Metro Talisay

Message from the Chairman

FRANK S. GAISANO
Chairman and Chief Executive Officer

To our dear shareholders,

Every successful enterprise begins with a clear vision of what it wants to achieve. In the face of stiffening competition, an enterprise must be able to transform and innovate, while remaining true to its roots and heritage.

In its 34 years in operations, the Metro Retail Stores Group, Inc. (MRSGI) has been able to deftly leverage on opportunities and maneuver challenges, while still keeping faithful to the vision of its founders -- my parents, Victor and Sally Gaisano. Hard work, commitment to community, and passion for excellence, these are the values they have firmly instilled in us -- the heritage we carry on until today -- and we intend to pass on to the next generations of the MRSGI family.

Driven by the goal of delivering the best products and services and achieving lasting customer loyalty with a good name built on trust and hard work, MRSGI continues the glorious tradition that my parents have established, and continues to thrive amidst the changing times.

Philippine retail as boon for the economy

Retail remains one of the most vibrant industries locally, an integral contributor to a stronger local business environment. Increased consumer spending attributed to the Philippines' continued economic growth has also boosted the retail industry, which has been expected not only to expand but also consistently increase its share to the country's gross domestic product (GDP).

These promising prospects inspire us to exert greater efforts into solidifying our leading position in the local retail industry. Leveraging on the continued positive investment and consumer outlook, we remain ready to undertake various initiatives to ensure our future growth.

As a publicly listed company, we also endeavor to uphold the values of integrity and excellence in every aspect of our operations. Adhering to the principles of good corporate governance, and ably guided by our expert leadership team and advisers, we continue to be committed to growing our company's value for our shareholders, people, and customers, as reflected in our operational and financial performance.

Expanding the MRSGI store network

2016 saw the inauguration of 4 stores, including our 50th store located in Iloilo. These new stores further expanded the MRSGI network, bringing our total Gross Floor Area (GFA) to 440,000 square meters.

Our partnerships with leading local and international mall developers also enable MRSGI to consistently grow our footprint, while serving more customers. More importantly,it underscores our commitment to helping support the economic growth of our host communities while boosting our business partners' confidence in MRSGI.

Transforming for the better

Our journey of growth is hinged on many factors, not the least of which is our drive to constantly improve ourselves. The concept of kaizen inspires us to consistently evaluate our processes, seek efficiencies and enhance our service delivery not only to increase profitability but more importantly, to keep our promise of delivering only the best for our customers.

We welcome innovation and invest in technology to bolster our operations, ensuring proper supply chain management and availability of goods. We develop our people, understanding their need for professional growth and supporting them in gaining skills that will benefit both themselves and the company. We also maintain good relationships with our stakeholders, maintaining integrity in each and every transaction.

Unwavering support in the face of challenges

2016 proved to be an interesting year for business. Despite these challenges, MRSGI was able to achieve its yearly objectives, leveraging on other market opportunities to ensure that it remains on track in its path to growth.

The capability of MRSGI to weather the challenges of 2016 stems from the unwavering support of every member of its growing family. Our stockholders, Board of Directors, and business partners continue to remain confident in our ability to fulfil our commitment to growing a successful business, and their strong trust in us is deeply appreciated.

Our associates deserve our utmost gratitude as well. These men and women have been a strong pillar in the growth and success of MRSGI, and they continue to carry on the values of hard work and dedication that my parents have instilled in us. We are extremely grateful for their support, and thankful that they continue to share our vision for the company.

We look forward to your continued support in 2017, which we believe will be another successful year for MRSGI.

Message from the President

ARTHUR EMMANUEL
President and Chief Operating Officer

To our dear shareholders,

2016 has been an exciting year for Metro Retail Stores Group, Inc. (MRSGI). However, amidst all the changes in our business landscape and environment, the challenges that came, and the opportunities that arose, MRSGI remained focused on one thing: ensuring that it continues its promise to deliver best-in-class products at the best price possible, and quality services to its customers.

This is the heritage that has been the foundation of MRSGI, a tradition rooted on the shared passion to cultivate customer loyalty through excellent service and commitment to our communities.

One company, one family

We have always regarded our customers as our "bosses" and our people as part of the larger MRSGI family, and their contributions to our continued success can never be stressed enough. As such, we exert our best efforts to ensure that we provide for their needs even as we remain true to our heritage.

With our continuous expansion, MRSGI is able to reach more and serve the diverse requirements of our customers. We ensure that we are able to provide not only for their individual needs, but also those of our institutional and wholesale clients that look to us to deliver the quality of products and services they expect from us. Most notably, we conduct our transactions with integrity and honesty, ensuring our customers that we only deliver goods of the highest value.

Enabling us to efficiently serve our customers is our skilled and dependable staff network, which has now grown into 8,100. The continued loyalty of our people has driven us to further create new avenues for their professional growth, with many of them rising from the ranks and in turn becoming mentors to new staff. We are extremely proud of their accomplishments, and their unwavering dedication to the values of our company.

Significant milestones

The drive for excellence shared by all of us at MRSGI has enabled us to once again perform strong for 2016. We are delighted to see important improvements and gains made as we journey on to further growth and success. I am pleased to report that in the fourth quarter of 2016, MRSGI posted a 24.3% percent growth bringing our total net income for FY 2016 to Php789 million, up from Php759 million in 2015. Our overall net sales for the year rose to Php34.4 billion, an increase of Php2.1 billion over 2015 for all-stores. The inherent strength of the business was evident throughout the fourth quarter, with sales growth rising steadily from October to December.

We continued to grow our nationwide store network, now composed of 50 stores that cover 25 supermarkets, 13 hypermarkets, and 12 department stores. We aim to sustain this growth trajectory with our plans to target 800,000 square meters of Gross Floor Area (GFA) by 2020.

Strengthening capabilities

Excellent customer service requires not only great people, but also the best infrastructure. To ensure that we are able to support the needs of our growing store network, we added 2 distribution facilities to our operations with the inauguration of our warehouses in Cebu.

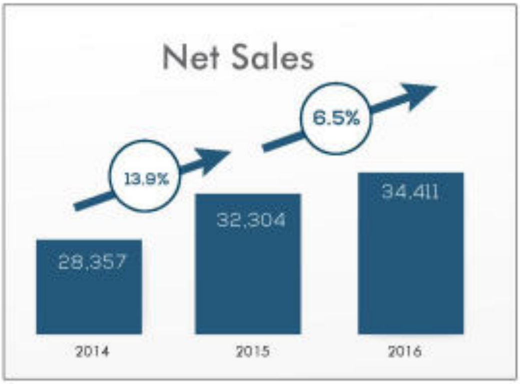
The addition of the warehouse is in line with our strategic program to continuously modernize MRSGI's logistics and supply chain processes, enabling us to ensure constant availability of products in our 50-strong store network. To ensure seamless processing of our various transactions, we have also invested in Oracle's latest technology solutions in warehouse, store inventory, and customer point-of-service. Further, we increased our in-house fleet capacity to service 70% of our store delivery requirements. Optimizing our supply chain is essential to ensure the overall efficiency of our store operations, contributing to productivity and profitability.

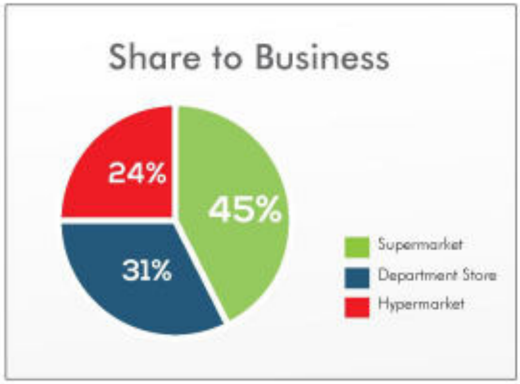
Honoring our heritage

Our achievements for 2016 certainly are encouraging and a tribute to our people but not resting on our laurels, we take these milestones as inspiration to further continue our drive to growth. As we make plans to expand our reach, we are heartened by the words of our founders to not be afraid of risks, but trust that hard work and respecting traditions will bring success.

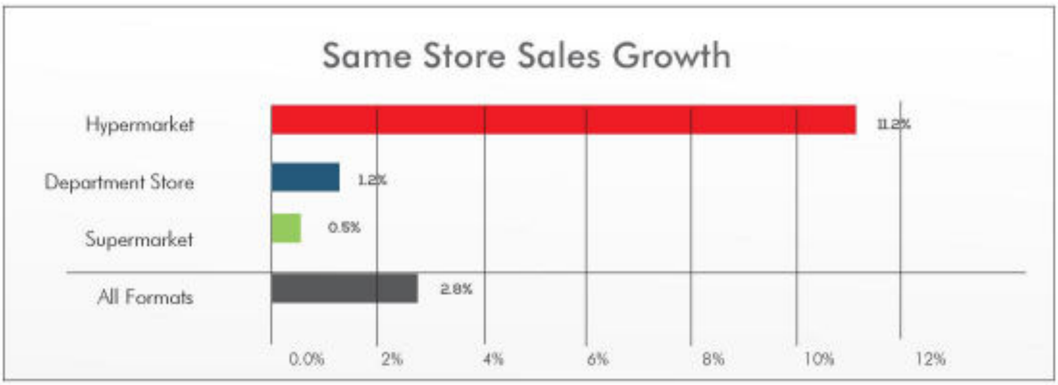
The MRSGI community has always regarded our heritage with great pride, recognizing that it has brought us to success and will continue to guide us in our journey further. As we continue to serve our stakeholders with the values that our founders – Victor and Sally Gaisano passed on from generation to generation, and with the support of our people committed to our shared goal, we are ready to face the year ahead stronger and more determined than ever.

Financial and Operating Highlights

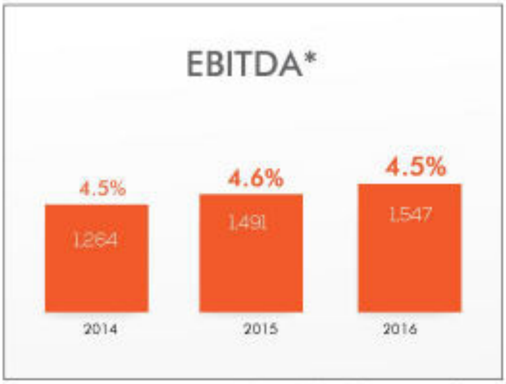


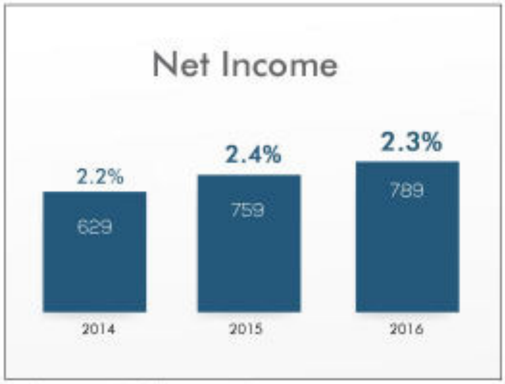


Note: Figures are in Php millions and percent growth year-on-year



Note: Figures are in Php millions and percent to Net Sales





Note: Figures are in Php millions and percent to Net Sales
*Earnings before Interest, Tax, Depreciation and Amortization

FINANCIAL OPERATING HIGHLIGHTS

(In million pesos, except if indicated)

	2014	2015	2016
Income Statement			
Revenues	28,357	32,304	34,411
Gross Margin	6,020	6,584	6,979
EBITDA	1,264	1,491	1,547
Net Income	629	759	789
Balance Sheet			
Total Assets	8,084	11,672	12,072
Total Liabilities	5,097	5,226	4,927
Stockholder's Equity	2,987	6,445	7,145
Financial Ratios			
Current Ratio	1.41	2.12	2.14
Debt to Equity Ratio	0.37	0.15	0.00
Net Debt to Equity Ratio	(0.18)	(0.22)	(0.46)
Asset to Equity Ratio	2.71	1.81	1.69
Return on Total Assets	8.14%	7.68%	6.65%
Return on Equity*	22.41%	16.09%	11.62%

*After an additional P3.36 billion added to equity post-Initial Public Offering in 2015.

Corporate Governance

In its first full year as a publicly listed company, MRSGI adhered to the corporate governance (CG) practices that were outlined in its CG policy framework. Specifically, the company's operations and decision-making were guided by its various CG-related policies in the following areas:

a. CG Formalities;
b. Rights and Equitable Treatment of Shareholders;
c. Stakeholder Relations;
d. Disclosure and Transparency;
e. Control Environment and Processes; and
f. Board of Directors Structure and Effectiveness.

The MRSGI Board of Directors and management believe that adherence to the CG standards defined by the regulatory authorities should form the basis of the company's CG practices. However, the company shall endeavor to further strengthen its CG practices and align these with applicable international best practices.

CORPORATE GOVERNANCE FORMALITIES

In 2016, the board-approved MRSGI CG Manual guided the company's CG-related activities. The policy framework defined in the Manual drove all initiatives, decisions and actions that had CG implications.

In addition to the Manual, MRSGI has in place other CG-related policies and processes such as, but not limited to, the following:

a. Independent Director Selection Process;
b. Board of Directors Performance Evaluation System;
c. Audit and Risk Committee Charter;
d. Investment Committee Charter;
e. Governance Committee Charter; and
f. Nomination and Remuneration Committee Charter.

In 2016, the MRSGI Board issued the following CG Policies:

a. Guidelines on Matters Requiring Board of Directors, Shareholder, and Management Approval;
b. Whistle-Blower Policy;
c. Related-Party Transaction Policy; and
d. Code of Conduct for Directors and Senior Management.

The company did not only work on improving its CG practices, it likewise helped contribute to the shaping of the country's CG regulatory framework. Specifically, the company's Chief Governance and Strategy Officer, Jonathan Juan Moreno, participated in various discussions and reviews on the drafting of the revised Securities and Exchange Commission's Corporate (SEC) Governance Code. He provided valuable insights from the perspective of publicly listed companies during the drafting process.

RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

The Board of Directors recognizes its duty to promote shareholder rights, remove impediments to the exercise of shareholders' rights, and provide an adequate venue for them to seek timely redress for violation of their rights. In this regard, the Board of Directors respects such rights as provided for in the Corporation Code, namely:

a. Right to vote on all matters that require their consent or approval;
b. Pre-emptive right to all stock issuance of the Corporation, if applicable under the Corporations' Articles of Incorporation and By-Laws;
c. Right to inspect corporate books and records;
d. Right to information;
e. Right to dividends; and
f. Appraisal right.

Recognizing that all stockholders should be treated equally and without discrimination, MRSGI allows minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

ANNUAL STOCKHOLDERS MEETING

The Board of Directors is committed to be transparent and fair in the conduct of annual and special stockholders' meetings. It ensured that accurate and timely information was provided to stockholders to enable them to make sound business judgment. The stockholders were encouraged to personally attend such meetings. If they cannot attend, they were apprised ahead of time of their right to appoint a proxy. The Board of Directors took appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Notices of Annual General Meeting were sent to the shareholders either by personal delivery, e-mail, or electronic means at least two (2) weeks prior to the date of the meeting, which was held on May 6, 2016 in Mandaue City, Cebu.

RELATED-PARTY TRANSACTION

Recognizing that the corporate ownership and control structure of MRSGI is such that it deals with related parties in its normal course of business, the company has set in place mechanisms to ensure that the interests of non-controlling shareholders are protected. The Audit and Risk Committee (ARC), which is mainly composed of independent directors, reviews such transactions and ensures that these are done at arms' length. These transactions are likewise reviewed by the external auditor and included in the financial statements to provide assurance as to the accuracy of the reported information.

INVESTOR RELATIONS

To ensure that relations with investors are maintained and nurtured, MRSGI actively engaged its shareholders by communicating its strategies and performance through its Investor Relations Department (IRD). Headed by Joseph Conrad Balatbat, IRD managed and disseminated relevant information to investors. In addition to the numerous one-on-one meetings with various investor groups and the quarterly earnings calls, the company participated in the following IR-related activities in 2016:

Date	Event	City
Feb 16-19, 2016	Deutsche Bank Access Philippines Corporate Day	HK/Singapore
May 5, 2016	MRSGI Investors' Day	Cebu, Philippines
May 6, 2016	MRSGI 2016 Annual Stockholders' Meeting	Cebu, Philippines
August 22-24, 2016	Macquarie ASEAN Conference	Singapore
Oct 6-7, 2016	Deutsche Bank Access Conference	Manila, Philippines
Nov 9-10, 2016	RCBC Securities Corporate Day	Tokyo, Japan
Nov 16-18, 2016	Morgan Stanley 15th Annual APAC Summit	Singapore

STAKEHOLDER RELATION

The Board of Directors and management continue to be committed to socially responsible and ethical practices. They likewise believe that responsible business practices require that the company's stakeholders should be treated well. In this regard, in 2016, the company worked closely with all its relevant stakeholders by initiating, sustaining, or strengthening its programs for the following stakeholders:

SUPPLIERS / CONTRACTORS

a. Continued the program of strengthening processes and systems to improve the supplier selling and payment experience; and
b. Held constant dialogues with suppliers to listen to and address their concerns.

CUSTOMERS

Continuously enhanced the company's processes and systems to further improve quality of products andservices for the customers by having the freshest and widest assortment of products available on the shelves, as well as ensure that the customers' shopping experience is always safe and pleasant.

EMPLOYEES

a. Provided quality-training opportunities for employees through technical and soft skills enhancement programs on learning orientation and inter-store networking, among others. These were conducted through "Store Operations Summits", and other activities that are aimed to develop business andtechnical knowedge;
b. Conducted KPI-setting activities with the Leadership Team to ensure alignment to the organization's Mission, Vision, and Strategies.
c. Convened the first batch of the Store Managers Training Program (SMTP) as well as two (2) batches ofthe Management Training Program (MTP), both core programs of the Metro Retail Academy (MRA);
d. Conducted employee engagement activities to improve overall employee morale and camaraderie like Focused Group Discussions, and annual activities such as the New Year's Party and the Metro Challenge during summer time;
e. Recognized tenured employees through the Loyalty Awards, showcasing those that have risen from the ranks;
f. Started groundwork on "Ending ENDO" compliance;
g. Conducted an organization-wide cascade of the Updated Manual on Company Rules and Regulations Governing Employee Conduct and Discipline;
h. Adopted DOLE policies on anti-sexual harassment, drug-free workplace, and tuberculosis and Hepatitis B prevention;
i. Conducted Employee Health Awareness Programs like "Health Talks" and the Annual Physical Examination for all regular employees;
j. Provided life, hospitalization, and accident insurance coverage to all regular full-time active employees of the company.

COMMUNITY

Through the company's Corporate Affairs Department headed by Anna Marie Periquet, MRSGI implemented the METRO CSR Employees' Volunteer Program wherein company employees contribute their time and effort during relief operations,medical missions, and other CSR programs of the company.These are further elaborated under the Corporate Social Responsibility part of this report.

TRANSPARENCY AND DISCLOSURE

MRSGI remains committed to fully disclose material information such as, but not limited to, external audit fees and ownership structure, to the appropriate regulatory agencies as well as to the investing public. As such, through its Compliance Officer, Atty. Karen Climaco, MRSGI diligently complied with all required information through the mechanisms established for listed companies by the SEC and the Philippine Stock Exchange (PSE).

COMPANY WEBSITE

MRSGI believes that accurate and timely disclosures are largely synonymous to making information available on the company website, which is also increasingly seen as a primary source of company information.

In this regard, in 2016, the company continuously updated its website by including relevant and current information that most investors and stakeholders expect to see. It is continuously populating the site with relevant information that leading listed companies also provide.

External Audit and Fees

Name of Auditor	Audit Fee	Non-Audit Fee
SGV & Co.	Php 1,800,000*	Php 164,700

Ownership Structure

Indicate below is the ownership structure of MRSGI as of Dec 31, 2016.

Stockholders	Nationality	No. of Shares Subscribed	Amount Paid-Up (inPhP)
Vicsal Development Corporation	Filipino	2,475,000,000	2,475,000,000.00
PCD Nominee Corporation (F)	Filipino	627,282,082	627,282,082.00
PCD Nominee Corporation (NF)	Filipino	302,271,940	302,271,940.00
Valueshop Stores, Inc.	Filipino	24,801,489	24,801,489.00
Frank S. Gaisano	Filipino	2	2.00
Edward S. Gaisano	Filipino	2	2.00
Margaret G. Ang	Filipino	2	2.00
Jack S. Gaisano	Filipino	2	2.00
Arthur Emmanuel	American	1	1.00
Guillermo L. Parayno Jr.	Filipino	1	1.00
Ricardo Nicanor N. Jacinto	Filipino	1	1.00
Elias Celia Sy &/or Teresita R. Teo	Filipino	10,000	10,000.00
Asuncion, Victor Jayo	Filipino	5,000	5,000.00
Legaspi, Virgilio C.	Filipino	1,000	1,000.00
Bagasin, Danilo G.	Filipino	1,000	1,000.00
Dungo, Elpidio S.	Filipino	1,000	1,000.00
Lampa, Arvic C.	Filipino	1,000	1,000.00
Valencia, Jesus San Luis	Filipino	300	300.00
Herrera, Joselito C.	Filipino	100	100.00
Au, Owen Nathaniel S. AU ITF: Li Marcus	Filipino	78	78.00
Total		3,429,375,000	3,429,375,000.00

CONTROL ENVIRONMENT AND PROCESSES

In 2016, the Board of Directors and management further strengthened its internal control and audit system by making it more robust and effective to ensure efficiency of operations, reliability of financial reporting, safeguarding of assets, and compliance with laws and regulations.

Through the active leadership of the ARC, the company further strengthened its risk management, internal audit, control, and compliance, with the objective of bringing these to the level where it can effectively minimize and manage risks associated with the firm's anticipated growth.

RISK MANAGEMENT

The ARC worked closely with management to ensure that all business risks are identified, evaluated, and appropriately managed, and that management maintains a sound system of risk management that allows for a comprehensive and systemic approach in risk identification and assessment, so that the company may respond to relevant and material risks as they arise and develop.

As a result, thirty-nine (39) store locations, all warehouses and all corporate departments have developed their own Risk Registers through the guidance of the Enterprise Risk Management (ERM) group under the General Loss Prevention (GLP) department. The risks previously identified were reassessed to check if these were reduced or minimized. The actions taken to reduce these risks were likewise validated for effectiveness. New or emerging risks were also noted and included in the risk register of 2016 for proper management and monitoring at the store level.

The critical risks that could not be handled by the stores and departments were escalated to the Risk Management Committee (RMC). The RMC is an executive-level committee composed of the heads of the Corporate IT, Finance, Legal, GLP, Engineering, Distribution, Store Operations, and Strategy departments, and was organized to ensure the proper management of the most critical risk factors of the organization as collated and submitted to the RMC by the GLP – ERM team. The RMC was able to have eight (8) meetings for the whole year 2016 to address all the risk raised to its level.

INTERNAL AUDIT

The Internal Audit Group (IAG) of MRSGI operates on a risk-based approach that primarily focuses on the risk-involved activities and ensures that these risks are being managed within controllable levels. Headed by Dione Derrick Kocencio, the IAG is composed mainly of certified public accountants and industrial engineers. The group developed and implemented a flexible annual audit plan using appropriate risk-based methodology and is primarily responsible for providing independent and objective assurance and consulting services designed to:

a. Strengthen the organization's internal control structure;
b. Identify opportunities for process, policy and control improvements; and
c. Monitor compliance to government regulations and the company's internal policies and standard operating procedures.

To ensure its independence and integrity, the IAG reports functionally to the ARC and administratively to the President & COO.

In 2016, completed internal audit engagements related to:

a. Retail pricing set-up and adjustment,
b. Fixed deals processing,
c. Fresh department operations,
d. Ads and promos-related purchases,
e. Payroll processing, and
f. Rewards card operations.

Significant progress and partial completion were also made on engagements in:

a. Institutional sales,
b. Inventory management-related operations, and
c. The company's ancillary businesses such as Food Avenue, Suisse Cottage, and leasing

INTERNAL CONTROL

The Internal Control System for MRSGI is largely driven by Standard Operating Procedures (SOP). In 2016, a number of these SOPs were developed and/or updated and incorporated in the company's existing policies and operating manual. Implemented by the company's Systems and Procedures Group (SPG), these operating standards are the basis of the IAG in checking compliance with company policies and procedures.

With the IAG and the SOPs, there is an assurance in MRSGI that the policies, procedures, and activities are working within a control framework, thus risks are contained within tolerable levels.

COMPLIANCE OFFICER

To ensure adherence to corporate policies as well as external regulatory requirements, the MRSGI's Compliance Officer, Atty. Karen Climaco, ensured that the company remained compliant to all relevant laws, rules, and regulations of regulatory agencies and MRSGI's CG Manual. She likewise advised and coordinated closely with the company officers and managers to ensure their compliance with their responsibilities to the shareholders and the general public. Atty. Climaco also assisted in the development of MRSGI's CG-related policies such as the Company's CG Manual, Guidelines on matters requiring Board of Directors, shareholder, and management approval, Whistle-blower policy, Related-party transaction policy, and Code of Conduct for Directors and senior management.

BOARD STRUCTURE AND EFFECTIVENESS

The Board of Directors is primarily responsible for the governance of the company. It is tasked with fostering the long-term success of MRSGI and securing the company's sustained competitiveness in a manner consistent with its fiduciary responsibility of creating value for its shareholders, with due regard for its other stakeholders.

The Board of Directors is committed to conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. It likewise articulates the company's long-term aspirations and strategic direction through the development of MRSGI's vision, mission, values, and five-year strategic roadmap.

STRENGTHENING THE MRSGI BOARD OF DIRECTORS

In 2016, MRSGI Directors attended the following CG training seminars:

Director's Name	Training Provider	Date
Frank S. Gaisano	Institute of Corporate Directors	09 March 2016
Edward S. Gaisano	Risk, Opportunities, Assessment and Management (Roam), Inc.	20 December 2016
Margaret G. Ang	Risk, Opportunities, Assessment and Management (Roam), Inc.	20 December 2016
Jack S. Gaisano	Risk, Opportunities, Assessment and Management (Roam), Inc.	20 December 2016
Arthur M. Emmanuel	Institute of Corporate Directors	09 March 2016
Ricardo Nicanor N. Jacinto	Securities and Exchange Commission	03 August 2016

The table below indicates additional information on the Board of Directors:

Director's Name	Type [Executive (ED), Non Executive (NED) or Independent Director (ID)]	If Nominee, Identify he Principal	Nominator in the Last Election (if ID, state the relationship with the nominator)	Date First Elected	Date Last Elected (if ID, state the number of years served as ID)1	Elected When (Annual /Special Meeting)	No. of Years Served as Director
Frank S. Gaisano	ED		Viscal Develop ment Corporation	Aug 28, 2003	May 6, 2016	Annual	13
Edward S Gaisano	NED		Viscal Develop ment Corporation	Aug 28, 2003	May 6, 2016	Annual	13
Margaret G. Ang	NED		Viscal Develop ment Corporation	Aug 28, 2003	May 6, 2016	Annual	13
Jack S. Gaisano	NED		Viscal Develop ment Corporation	Aug 28, 2003	May 6, 2016	Annual	13
Arthur M. Emmanuel	NED	Viscal Develop ment Corporation	Viscal Develop ment Corporation	April 13, 2015	May 6, 2016	Annual	2
Guillermo L Parayno. Jr	ID	No Relation	N / A	July 16, 2015	May 6, 2016 (1 yr 8 mos)	Annual	1 yr 8 mos
Ricardo Nicanor N. Jacinto	ID	No Relation	N / A	July 27, 2015	May 6, 2016 (1 yr 8 mos)	Annual	1 yr 8 mos

BOARD COMMITTEES

MRSGI's Board committees assist in carrying out specific board responsibilities. They function as part of and under the control of the Board of Directors and are supplementary, directly aiding the Board in the performance of its functions. The Board of Directors has four board committees to help the body in the exercise of its governance function. These committees, together with a brief description of their respective mandates, are indicated below:

a. Audit and Risk Committee (ARC) The ARC assists the Board of Directors in fulfilling its oversight responsibilities on the management and financial reporting process, system of internal control, maintenance of an effective audit process, process for monitoring compliance, and overall risk management function and/or program.

Audit and Risk Committee
Guillermo L. Parayno, Jr. – Chairman
Margaret G. Ang
Ricardo Nicanor N. Jacinto

b. NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee assists the Board of Directors in reviewing and evaluating the qualifications of all individuals nominated to theBoard and other appointments that require Board approval.It likewise assesses the effectiveness of the Board's processes and procedures in the election or replacement of directors.

The Nomination and Remuneration Committee has established a formal and transparent procedure for developing a policy on remuneration.

Nomination and Remuneration Committee
Frank S. Gaisano – Chairman
Margaret G. Ang
Ricardo Nicanor N. Jacinto

c. GOVERNANCE COMMITTEE

The Governance Committee assists the Board of Directors in ensuring its effectiveness and constant improvement. It also ensures that the Board of Directors conforms to all its legal, ethical, and functional obligations through adequate governance policy development,training programs, monitoring of Board activities, and evaluationof Board performance.

Governance Committee
Edward S. Gaisano – Chairman
Margaret G. Ang
Guillermo L. Parayno, Jr.
Arthur Emmanuel

d. INVESTMENT COMMITTEE

The Investment Committee assists the Board of Directors in the oversight of the company's major investment activities. It establishes, reviews, and recommends to the Board of Directors the policies and strategies to be adopted by the company regarding the investment activities and portfolios necessary to achieve its goals and objectives; evaluates and enhances the company's investment processes; and recommends the hiring and termination of investment managers.

Investment Committee
Jack S. Gaisano – Chairman
Frank S. Gaisano
Ricardo Nicanor N. Jacinto

MRSGI's Senior Board Advisers, Christopher Beshouri and Sherisa Nuesa, sit in Board committee meetings as well.

BOARD MEETING AND ATTENDANCE

The Board of Directors meets at least once every two months. The meeting agenda and other necessary materials are given to the Board of Directors at least three (3) days prior to the meeting. The minimum quorum requirement is determined by a simple majority or, in the case of MRSGI, at least four (4) Directors. For 2016, MRSGI conducted meetings as stated below.

Board of Directors	Name	Date of Election	No. of Meetings Held During the Year	No. of Meeting Attended	%
Chairman	Frank S. Gaisano	May 1, 2015	13	13	100%
Member	Edward S. Gaisano	May 6, 2015	13	11	85%
Member	Jack S. Gaisano	May 6, 2015	13	10	77%
Member	Margaret G. Ang	May 6, 2015	13	10	77%
Member	Arthur Emmanuel	May 6, 2015	13	11	85%
Independent	Guillermo L. Parayno, Jr.	May 6, 2015	13	12	92%
Independent	Ricardo Nicanor N. Jacinto	May 6, 2015	13	13	100%

BOARD REMUNERATION

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

By resolution of the Board of Directors, other than a per diem allowance of P150,000.00 for attendance in each Board meeting and P45,000.00 for attendance in Committee meetings where a Director is a Committee chairman, or P40,000.00 where a Director is a Committee member, 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. Directors who are also Executive Officers are entitled to per diem allowance of P10,000.00 for every attendance in Board and Committee meetings. Directors representing Vicsal Development Corporation -- Margaret G. Ang, Edward S. Gaisano, and Jack Gaisano -- have also opted to receive P10,000.00 for every attendance in Board and Committee meetings.

BOARD EVALUATION

The Board of Directors undergoes an evaluation of its performance at least annually. This is a short self-evaluation of the Board of Directors as a group to identify areas where they can function more effectively for continuous improvement. This is administered by the Corporate Secretary under the guidance of the Governance Committee.

More information on MRSGI's Corporate Governance
Additional information about the company's corporate governance practices and initiatives are available at our website www.metroretail.com.ph

Corporate Social Responsibility

Side by side with the expansion of MRSGI's retail store footprint is the expansion of the scope of its corporate social responsibility initiatives. More stores mean greater opportunities to spread the company's provision of sustainable programs to various communities where it operates, in line with its continuous advocacies in education, employment generation, livelihood, environment, and community outreach. Implemented by the Office of Corporate Affairs, these programs are designed to enhance the company's long-term social value for its stakeholders, from the management and employees to its customers and host communities.

EDUCATION

Recognizing the value of individual empowerment through quality education and employment opportunities, MRSGI continues to contribute to the Vicsal Foundation, the CSR arm of the company's parent conglomerate, Vicsal Development Corporation. The funds are utilized for the construction of school classrooms and to provide college scholarships to underprivileged yet deserving high school graduates.

The scholarship program, which allows beneficiaries to choose their degrees, has produced 82 graduates since its implementation in 1983.

EMPLOYMENT

Students who complete the scholarship program are given the opportunity to work at MRSGI through various on-the-job training programs and one-year management immersion programs that pave the way for full-time employment.

In 2016, a total of 26 scholars entered the organization after having passed the qualifications, while 10 scholars have been employed by affiliate companies under the Vicsal Holdings Company.

There are 16 scholars who are currently completing their employment training courses under MRSGI's Management Training Program.

LIVELIHOOD

Continuing the company's capacity building and skills development for the benefit of the residents of its host communities, the Skills Training and Employment Program (STEP) conducted baking workshops in its branches in Quezon City, Antipolo City, Bogo City, and Carcar in Cebu. The program reflects MRSGI's commitment to provide free training for skills required by the stores' operations, in this case under the ancillary business unit, Metro Suisse Cottage. Under the program, 12 trainees qualified in 2016. MRSGI also continued working with local business sectors through the METRO Hanepbuhay program.

In 2016, the Office of Corporate Affairs launched the Calamba Products Showcase vendor booth in Super Metro Calamba, featuring products crafted by members of the Likhang Kamay ng Kalambenyo Producers Cooperative. The product fair ran from July to August 2016.

His Eminence Cardinal Luis Antonio Tagle presents the Caritas Manila Recognition Award to MRSGI Chairman and CEO Frank S. Gaisano during the annual Agape. MRSGI was cited for topping the nationwide donations for the Segunda Mana project in 2016. Present at the Agape were Caritas Manila Executive Director Rev. Fr. Anton Pascual; and MRSGI Vice President for Corporate Affairs Anna Marie Periquet.

MRSGI partners with Caritas Manila in June 2016 to support the organization's Segunda Mana project. In photo are MRSGI Vice President for Corporate Affairs Anna Marie Periquet and Caritas Manila Executive Director Fr. Anton Pascual.

ENVIRONMENT

With the aim of beautifying communities through the creative use of recycled waste products, MRSGI donates plastic, soda cans and bottles, used cooking oil, and other recyclable scrap materials to the Solid Waste Management for Sustainable Livelihood Program. Through this activity, these industrial by-products are pulverized and made into bricks used to pave the sidewalks.

From January to December 2016, the company donated 5,470 kilos of waste products to the recycling program. Among its beneficiary communities was Barangay Bagumbuhay in Quezon City.

COMMUNITY OUTREACH

MRSGI employees are continuously encouraged to volunteer in the company's various outreach initiatives that span relief operations, medical missions, and other community assistance efforts, particularly in areas affected by natural disasters and calamities.

In July 2016, MRSGI, through the Office of Corporate Affairs, joined the Segunda Mana project, the donations-in-kind program of Caritas Manila. By the end of December 2016, MRSGI's total donations in-kind amounted to P224,000.00, which covered for the financial assistance of eight scholars under the Caritas Youth Servant Leadership Education Program.

In October 2016, MRSGI also conducted a medical mission in MRB Habitat, Barangay Bagumbayan, Lower Bicutan, Taguig. Done in partnership with Habitat for Humanity, the mission benefited 167 residents who availed of free medical services that included eye check-ups, chest x-ray, ECG, blood tests, and medical consultation.

The Office of Corporate Affairs launched the MRSGI-Habitat for Humanity partnership in October 2016, with a medical mission in MRB Habitat, Barangay Bagumbayan, Lower Bicutan Taguig. Residents from the Habitat community and Barangay Bagumbayan availed of free medical services, which included eye check-up, chest x-ray, ECG, blood tests, and medicall consultation.

MRSGI promotes participation of its employees in various CSR initiatives. As part of its employee engagement efforts, MRSGI regularly extends volunteer opportunities for its employees to join its community development and relief programs, further highlighting the company's integrated approach to CSR.

Board of Directors

Board of Directors

FRANK S. GAISANO
Chairman and Chief Executive Officer

Frank S. Gaisano, Chairman and Chief Executive Officer of the Metro Retail Stores Group, Inc. (MRSGI), has nearly four decades of retailing experience and is widely recognized as one of the Philippine retail industry's innovative and forward-looking leaders. Working closely with his siblings Margaret, Jack, and Edward, Gaisano was instrumental in professionalizing the leadership and piloting the aggressive growth of MRSGI. Under his direction, MRSGI transformed to become one of the country's top four retail chains. Before his current appointment, Gaisano served as MRSGI's Director from 2003 to 2011. He also sits as Chairman of the Boards of AB Capital and Investment, Pacific Mall Corporation, and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property, Filipino Fund, Inc., Taft Punta Engaño Property, Inc., and Direct Model Holdings, Inc. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology and completed courses at the Institute of Corporate Directors.

ARTHUR EMMANUEL
President and Chief Operating Officer

Arthur Emmanuel is the President and Chief Operating Officer of MRSGI. He brings decades of retail experience honed at Wal-Mart, where he held global key positions including Senior Vice President for Sourcing and Retail Import Development Organization, China; Senior Vice President for Shoes and Jewelry; Regional Vice President for Operations; Senior Vice President and Chief Operating Officer, South America; Vice President for International Operations for Mexico and Puerto Rico; Vice President for International Merchandise; Vice President and Divisional Merchandise Manager for Ladies Apparel; and Regional Vice President for Operations. He was also an Instructor at the Wal-Mart University and a frequent keynote speaker on behalf of Wal-Mart Stores, Inc. His contributions have earned him accolades, including the Wal-Mart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement, and the Wal-Mart International Awards, recognizing Wal-Mart's growth in Argentina, Brazil and Mexico. Prior to MRSGI, Emmanuel served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation from 2010 to 2012. His other previous affiliations include chairmanship and directorship posts at Leadership in Education for Pacific Islanders (LEAP), American Heart Association Fundraiser, and United Way Fundraiser. He earned his Transition to Management MBA from Columbia University in 2006.

MARGARET GAISANO ANG

Director

Margaret Gaisano Ang has been a Director, Corporate Secretary, and Treasurer of MRSGI since 2003. Additionally, she is a Director of Vicsal Development Corporation, Taft Property Venture Development Corporation, Vicsal Securities and Stock Brokerage, Inc., Filipino Fund, Inc., Grand Holidays, Inc., Manila Water Consortium, Inc., and Maric Ventures, Inc. She graduated cum laude with a Bachelor of Science degree in Commerce, major in Accounting from the University of San Carlos and fnished courses at the Institute of Corporate Directors.

JACK S. GAISANO

Director

Jack S. Gaisano is a Director of MRSGI. He previously held the position of Chairman and President from 2003 to 2011. Currently, he is the Chairman and President of Taft Property Venture Development Corporation, Midland Development Corporation, and Vsec.com Inc., and sits as President and Vice Chairman of HTLand, Inc. He also holds directorships at Vicsal Development Corporation, Vicsal Investment, Inc., Pacific Mall Corporation, and JV.Com Holdings Inc. From 1989 to 2009, he was a Director of Vicsal Securities and Stock Brokerage, Inc. Gaisano earned his Bachelor of Science degree in Chemical Engineering from the University of San Carlos and completed courses at the Institute of Corporate Directors.

EDWARD S. GAISANO

Director

Edward S. Gaisano was appointed Director of MRSGI in 2003. He is also the Chairman and President of Vicsal Development Corporation; serves as Chairman of the Boards of Wealth Development Bank Corporation, Hyundai Alabang, Inc., and Hyundai Southern Mindanao, Inc.; is the president of Pacific Mall Corporation; and holds directorships at Taft Property Venture Development Corporation and Trilogy Holdings Corporation. Previously, he was Chairman and President of Prime Asia Pawn & Jewelry Shop Inc. and Platinum Holdings, Inc. as well as a Director of Metro Value Ventures, Inc. A registered physician, Gaisano earned his Doctor of Medicine degree from the Cebu Institute of Medicine and received his Bachelor of Arts degree in English from Velez College. from the University of San Carlos and completed courses at the Institute of Corporate Directors.

RICARDO NICANOR N. JACINTO

Independent Director

Ricardo Nicanor N. Jacinto is an Independent Director of MRSGI. He currently holds chairmanship and managerial positions in numerous private companies and organizations. He is the Chief ExecutiveOfficer of the Institute of Corporate Directors; Consultant for Lapanday Properties Philippines Inc., Torre Lorenzo Development Corporation, and Sytengco Enterprises, Inc.; Director of SBS Philippines, Inc.; President of the Nicanor P. Jacinto, Jr. Foundation; and Proprietor of Anfield Management Consultancy Services.

Before his appointment at MRSGI, Jacinto held directorship posts in various institutions such as ManilaWater Corporation, Habitat for Humanity, AB Capital and Investment Corporation, and Ayala Land,Inc. (ALI). As Vice President for the Land and Community Development Group of ALI, he was responsiblefor leading several expansion projects, overseeing the land acquisition and development of varioushigh-end subdivisions such as Nuvali, Westgrove Heights, Paseo de Magallanes, Ayala Southvale, and Ayala Heights. He has also served in the government as Director of the Social Housing FinanceCorporation.

Jacinto received his Master's degree in Business Administration from Harvard University, and his Bachelor's degree in Business Economics, magna cum laude, from the University of the Philippines.

GUILLERMO L. PARAYNO, JR.

Independent Director

Guillermo L. Parayno, Jr. is an Independent Director of MRSGI. He has held various leadership positions in both the government and private sectors. His accomplishments in public service, as well as hisexpertise in information technology infrastructure, logistics, and supply chain, have gained him recognition from different institutions, including the PMA Alumni Association, the Asian Institute of Management, the Chamber of Customs Brokers of the Philippines, and the Professional Regulatory Commission of the Philippines.

Currently, Parayno is the Vice Chairman of the Philippine Veterans Bank; Chairman and President of E-Konek Pilipinas, Inc.; President of Bagong Silang Farms, Inc.; and President of the Parayno Consultancy Services on Logistics and Distribution, Customs, Information Technology, and Taxation. Prior to his appointment at MRSGI, Parayno was Co-Chairman and President of the Lina Group ofCompanies, and a member of the Toyota Motor Corporation's Board of Directors.

Parayno also previously served as a Commissioner in the Bureaus of Internal Revenue and Customs, and as Regional Director for the Economic Intelligence and Investigation Bureau of the Department of Finance. He has also served as Assistant Chief of Staff for Plans and Programs of the Philippine Coast Guard, and taught at the Philippine Military Academy and the University of the Philipines.He has also worked for several development projects with the United Nations Development Program and the Asian Development Bank.

He holds Master's degrees in Psychology from the University of the Philippines and Business Management from the Asian Institute of Management. He graduated magna cum laude from the Philippine Military Academy.

Senior Advisers to the Board

CHRISTOPHER P. BESHOURI

Senior Adviser to the Board

Christopher P. Beshouri is a Senior Adviser to the Board of MRSGI. He previously held positions at McKinsey and Company Philippines as President and CEO, as well as Chief of Staff of Asia and Senior Consultant for more than 15 years. Beshouri also served the United States Treasury as a Senior Financial Economist and Director from 1989 to 1997, focusing on financial markets and banking regulations. He was also an Adjunct Professor at Georgetown University, College of Business; Consultant for the West Africa Country Operations of the World Bank; Financial Auditor of the Catholic Relief Services; and Analyst and Research Assistant for the Federal Reserve Bank of Atlanta. Beshouri earned his Bachelor of Arts degree (Dual Major in Economics and Public Policy) from the Michigan State University, and his Master's degree in Public Affairs from Princeton University.

SHERISA P. NUESA

Senior Adviser to the Board

Sherisa P. Nuesa is a Senior Adviser to the Board of MRSGI. Concurrently, she sits on the Board of Directors of Manila Water Company (MWC), the ALFM Mutual Funds Group, Far Eastern University, FERN Realty Corporation, and Actimed/Generika Group. She is also a Trustee and Director of the Institute of Corporate Directors (ICD), the Financial Executives Institute of the Philippines (FINEX) Foundation, and the Integrity Initiative, Inc.

Nuesa formerly served as Managing Director of the Ayala Corporation; Chief Finance Officer of MWC from 2000 to 2008 and Integrated Micro-Electronics, Inc. (IMI) from 2009 to 2010; Group Controller and Group Head for Commercial Centers of Ayala Land, Inc. (ALI); Board Member of various subsidiaries of ALI, MWC, and IMI; and Director of Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority, and Psi Technologies.

A Certifed Public Accountant, she graduated summa cum laude with a Bachelor of Science degree in Commerce from the Far Eastern University, and earned her Master's degree in Business Administration from the Ateneo-Regis Graduate School of Business. She also attended the Advance Management Program of the Harvard Business School in 1999. Nuesa is the recipient of the ING-FINEX Philippines CFO of the Year Award in 2008.

Key Executives and Senior Management

BENEDICTO CLARK T. MIRANDA
Vice President for Land and Space

VINCENT TOMANENG
Corporate Secretary and Chief Legal Counsel

FILI P. MERCADO
Vice President for Mechandising and Operations Planning and Control

CHIT G. LAZARO
Chief Merchandising Officer for Food Retail

LUZ A. BITANG
Vice President for Operations

JOSEPH CONRAD M. BALATBAT
Vice President for Investor Relations

JOSELITO G. ORENSE
Chief Financial Officer and Treasurer

RICARDO B. AGUAS, JR.
Vice President for Supply Chain, Quality Assurance and Regulatory Affairs

ANNA MARIE K. PERIQUET
Vice President for Corporate Affairs

ARTHUR EMMANUEL
President and Chief Operating Officer

FRANK S. GAISANO
Chairman and Chief Executive Officer

JONATHAN JUAN DC. MORENO
Chief Strategy and Governance Officer

RESULTS OF OPERATIONS

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

REVENUE

NET SALES

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

	As of or for the year ended December 31,		Percentage Change
	2016	2015	
The Company			
Number of Stores	50	46	8.7%
Net Sales (₱ millions)	34,410.9	32,304.5	6.5%
Average Basket Size (₱)	554.1	546.3	1.4%
Number of transactions (millions)	62.1	59.1	5.1%
Same store sales growth (%)	2.8	9.4	

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

For the year ended December 31, 2016, MRSGI's net sales were P34,410.9 million, an increase of 6.5% compared to P32,304.5 million for the year ended December 31, 2015. The increase in net sales was largely a result of opening of two new department stores, a new supermarket and a new hypermarket. Same store sales growth was 2.8%.

RENTAL INCOME

For the year ended December 31, 2016, MRSGI'srental income was 298.4 million, an increase of 48.4% compared to P201.1 million for the year ended December 31, 2015. The increase in rental income was primarily due to the opening of four new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in existing lease agreements and the renegotiation of certain concession sales from percentage of revenue to fixed or percentage to revenue rent leases.

INTEREST AND OTHER INCOME

For the year ended December 31, 2016, MRSGI's interest and other income was P137.1 million, an increase of 80.2% compared to P76.1 million for the year ended December 31, 2015. The increase in interest and other income was primarily due to the increase in cash balances of bank accounts maintained by the Company for working capital requirements and interest income from short term investments and cash equivalents arising from the proceeds of the initial public offering which happened later part of 2015.

COST OF SALES

For the year ended December 31, 2016, MRSGI's cost of sales was P27,432.0 million, an increase of 6.7% which is generally in line with the 6.5% increase in net sales. Cost of sales grew faster than net sales due to faster rate of growth of the hypermarket format, which typically has a higher cost of sales as compared to the department store format.

OPERATING EXPENSES

For the year ended December 31, 2016, MRSGI's operating expenses were P6,271.2 million, an increase of 9.2% compared to P5,743.4 million for the year ended December 31, 2015. The increase was primarily due to an increase in salaries and wages, rent expenses, overhead expenses and depreciation expenses resulting from the opening of new stores.

FINANCE COSTS

For the year ended December 31, 2016, MRSGI's finance costs were P22.8 million, a decrease of 36.8% compared to P36.1 million for the year ended December 31, 2015 after full payment of loans was made in March 2016.

PROVISION FOR INCOME TAX

For the year ended December 31, 2016, MRSGI's provision for income tax was P331.0 million, an increase of 2.5% compared to P322.8 million for the year ended December 31, 2015. The increase in provision for income tax was primarily due to the increase in income before tax.

NET INCOME

As a result of the foregoing, for the year ended December 31, 2016, MRSGI's net income was P789.5 million, an increase of 4.1% compared to P758.6 million for year ended December 31, 2015.

Management's Discussion & Analysis

RESULTS OF OPERATIONS

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

REVENUE

NET SALES

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

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

For the year ended December 31, 2015, our net sales were P32,304.5 million, an increase of 13.9% compared to P28,356.9 million for the year ended December 31, 2014. The increase in net sales was primarily due to the increase of overall same store sales of 9.4% and the opening of two new hypermarkets and one new supermarket.

RENTAL INCOME

For the year ended December 31, 2015, our rental income was P201.1 million, an increase of 125.7% compared to P89.1 million for the year ended December 31, 2014. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of percentage of revenue to fixed rent leases.

INTEREST AND OTHER INCOME

For the year ended December 31, 2015, our interest and other income was P76.1 million, a decrease of 20.4% compared to P95.6 million for the year ended December 31, 2014. Scrap sales in 2015 amounted to P14.6 million, representing a decrease of 63.9% compared to P40.6 million in 2014.

COST OF SALES

For the year ended December 31, 2015, our cost of sales was P25,720.7 million, an increase of 15.2% compared to P22,336.6 million for the year ended December 31, 2014, which was generally in line with the growth of net sales of 13.9%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

OPERATING EXPENSES

For the year ended December 31, 2015, our operating expenses were P5,743.4 million, an increase of 9.0% compared to P5,270.0 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. The increase of 9.0% of operating expenses is lower than the increase in our net sales of 13.9% due to the economic benefits derived from increase in scale of our operations.

FINANCE COSTS

For the year ended December 31, 2015, our finance costs were P36.1 million, a decrease of 9.8% compared to P40.0 million for the year ended December 31, 2014. The decrease in finance costs was primarily due to decrease in our average loans outstanding.

PROVISION FOR INCOME TAX

For the year ended December 31, 2015, our provision for income tax was P322.8 million, an increase of 21.3% compared to P266.2 million for the year ended December 31, 2014. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets

NET INCOME

As a result of the foregoing, for the year ended December 31, 2015, our net income was P758.6 million, an increase of 20.6% compared to P628.9 million for the year ended December 31, 2014.

RESULTS OF OPERATIONS

The year ended December 31, 2014 compared with the year ended December 31, 2013

REVENUE

NET SALES

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2014 and 2013, and the percentage change in these key operating performance indicators between the two periods.

	As of or for the year ended December 31,		Percentage Change
	2014	2013	
The Company			
Number of Stores	43	38	13.2%
Net Sales (₱ millions)	28,356.9	25,468.0	11.3%
Average Basket Size (₱)	511.9	515.5	(0.7%)
Number of transactions (millions)	55.4	49.4	12.1%
Same store sales growth (%)	(1.2)	1.8	

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

For the year ended December 31, 2014, our net sales were P28,356.9 million, an increase of 11.3% compared to P25,468.0 million for the year ended December 31, 2013. The increase in net sales was primarily due to the opening of three new hypermarkets and two new supermarkets, but was partly offset by a decline in overall same store sales of 1.2%. The decline in same store sales was attributed to business disruptions caused by natural disasters and information technology system integration in the fourth quarter of 2013, which continued to affect us through early 2014.

RENTAL INCOME

For the year ended December 31, 2014, our rental income was P89.1 million, an increase of 19.7% compared to P74.5 million for the year ended December 31, 2013. The increase in rental income was primarily due to the opening of five new stores, which led to an increase in net leasable space. In addition, there was an increase in rental fees due to escalation clauses in our existing lease agreements.

INTEREST AND OTHER INCOME

For the year ended December 31, 2014, our interest and other income was P95.6 million, an increase of 145.3% compared to P39.0 million for the year ended December 31, 2013. The increase in interest and other income was primarily due to increases in scrap sales, increased interest income and other income. Our scrap sales increased from P17.8 million to P40.6 million because of the disposal of accumulated scrap materials and of scrap items from store renovations. Our interest income increased from P6.0 million to P15.6 million because of an increase in cash balances maintained for working capital requirements.

COST OF SALES

For the year ended December 31, 2014, our cost of sales was P22,336.6 million, an increase of 11.9% compared to P9,965.9 million for the year ended December 31, 2013, which was generally in line with the growth of net sales of 11.3%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

OPERATING EXPENSES

For the year ended December 31, 2014, our operating expenses were P5,270.0 million, an increase of 11.8% compared to P4,715.3 million for the year ended December 31, 2013. 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.

FINANCE COSTS

For the year ended December 31, 2014, our finance costs were P40.0 million, an increase of 64.4% compared to P24.4 million for the year ended December 31, 2013. The increase in finance costs was primarily due to an increase in bank loans of P1,400.0 million that we used to finance the acquisition of inventory and for the fit-out of our new stores. We made loan payments of a total of P1,500.0 million before the end of the year.

PROVISION FOR INCOME TAX

For the year ended December 31, 2014, our provision for income tax was P266.2 million, an increase of 1.4% compared to P262.5 million for the year ended December 31, 2013. 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, 2014, our net income was P628.9 million, an increase of 2.5% compared to P613.5 million for the year ended December 31, 2013.

Management's Discussion & Analysis

FINANCIAL POSITION

THE YEAR ENDED DECEMBER 31, 2016 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2015

As of December 31, 2016 and December 31, 2015, our net current assets, or the difference between total current assets and total current liabilities, were P4,788.1 million and P5,059.5 million respectively, representing a positive net working capital position.total current liabilities, were P5,059.6 million and P1,832.3 million, respectively, representing a positive net working capital position.

CURRENT ASSETS

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2016 and December 31, 2015 were P8,973.7 million and P9,576.5 million, respectively. The decrease of 6.3% of current assets is significantly due to the conversion of P1,700.0 million short term investments to cash equivalent and the decrease in other current assets. As of December 31, 2016, short term investment totaled P525.0 million, and other current assets totaled P280.7 million. As of December 31, 2015, short-term investments totaled P2,225.0 million, and other current assets totaled P481.6 million.

As of December 31, 2016, cash and cash equivalents amounted to P3,307.0 million, an increase of 40.7% from P2,351.0 million as of December 31, 2015. The increase were mainly attributable to the conversion of P1,700.0 million short-term investments to cash equivalent and P1,497.8 million generated from operating activities and were offset by the payment of P950.0 million of the outstanding loans payable, acquisition of P831.7 million property and equipment and dividend payment of P154.3 million.

CURRENT LIABILITIES

Total current liabilities as of December 31, 2016 and December 31, 2015 were P4,185.6 million and P4,517.0 million, respectively. As of December 31, 2016 and December 31, 2015, trade and other payables totaled P3,940.9 million and P3,374.2 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to nil and P950.0 million as of December 31, 2016 and December 31, 2015, respectively.

THE YEAR ENDED DECEMBER 31, 2015 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2014

As of December 31, 2015 and 2014, our net current assets, or the difference between total current assets and total current liabilities, were P5,059.6 million and P1,832.3 million, respectively, representing a positive net working capital position.

CURRENT ASSETS

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2015 and 2014 were P9,576.5 million and P6,288.0 million, respectively. The increase of 52.3% of current assets is significantly due to the increase in working capital arising from the proceeds of the initial public offering. As of December 31, 2015, merchandise inventories totaled P3,679.8 million, cash and cash equivalents totaled P2,351.0 million and short-term investments totaled P2,225.0 million. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling P3,168.2 million, followed by cash, totaling P1,625.7 million.

As of December 31, 2015, the cash balance totaled to P2,351.0 million, an increase of 44.6% from P1,625.7 million. The increase were mainly attributable to issuance of capital stock by way of an initial public offering of P3,360.9 million and increase in trade and other payables of P43.1 million offset by acquisition of P635.6 million property and equipment, net payment of P150.0 million of the outstanding loans payable as of December 31, 2014 and payment of cash dividends amounting to P650.0 million declared in 2015.

CURRENT LIABILITIES

Our current liabilities consist of trade and other payables and loans payable and income tax payable. Total current liabilities as of December 31, 2015 and 2014 were P4,517.0 million and P4,455.7 million, respectively. As of December 31, 2015 and 2014, trade and other payables totaled P3,374.2 million and P3,284.0 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Loans payable in short term working capital loans amounted to P950.0 million and P1,100.0 million as of December 31, 2015 and 2014, respectively. There were no long-term loans from financial institutions in 2015 and 2014

THE YEAR ENDED DECEMBER 31, 2014 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2013

As of December 31, 2014 and 2013, our net current assets, or the difference between total current assets and total current liabilities, were P1,832.3 million and P1,595.9 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, 2014 and 2013 were P6,288.0 million and P5,764.3 million, respectively. The increase of 9.1% of current assets is significantly due to the increase in working capital arising from the proceeds of issuance of additional capital stock. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling P3,168.2 million, followed by cash, totaling P1,625.7 million.

As of December 31, 2014, the cash balance totaled to P1,625.7 million, an increase of 57.7% from P1,030.9 million. The increase were mainly attributable to issuance of additional capital stock of P2,475.0 million, P1,462.3 million generated from operating activities offset by acquisition of P2,735.6 retail businesses and P425.2 million property and equipment, net payment of P100.0 million of the outstanding loans payable as of December 31, 2013.

CURRENT LIABILITIES

Our current liabilities consist of trade and other payables and loans payable and income tax payable. Total current liabilities as of December 31, 2014 and 2013 were P4,455.7 million and P4,168.4 million, respectively. As of December 31, 2014 and 2013, trade and other payables totaled P3,284.0 million and P2,960.7 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Loans payable in short term working capital loans amounted to P1,100.0 million and nil as of December 31, 2014 and 2013, respectively. There were no long-term loans from financial institutions in 2014 and 2013.

CASH FLOWS

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

	For the years ended December 31,		
	2016	2015	2014
The Company		(₱ million)	
Net cash flows from operating activities	P1,497.8	P1,028.8	P1,462.3
Net cash flows from (used in) investing ctivities	630.6	(2,864.4)	(3,242.4)
Net cash flows from (used in) investing ctivities	(1,172.5)	2,560.9	2,375.0
Net increase in cash	P955.9	P725.3	P594.9

NET CASH FLOWS FROM OPERATING ACTIVITIES

Our net cash flows generated from operating activities for the year ended December 31, 2016 was P1,497.8 million, which comprised operating income before working capital changes of P1,596.4 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories of P334.9 million primarily due to the opening of new stores. The increase in trade and other payables of P510.0 million also significantly contributed to the change in working capital requirements.

Our net cash flows from operating activities for the year ended December 31, 2015 was P1,028.8 million, which is comprised of operating income before working capital changes of P1,537.7 million, adjusted for changes in working capital and income tax and interest paid, partially offset by interest received. The changes in working capital were mainly attributable to increase in merchandise inventories amounting to P511.6 million primarily due to opening of new stores and decrease in receivables of P32.2 million. The increase in trade and other payables of P43.1 million also significantly contributed to the change in working capital requirements.

In 2014, net cash flows from operating activities was P1,462.3 million, which is comprised of operating income before working capital changes of P1,303.7 million adjusted for changes in working capital and interest received partially offset by income tax and interest paid. The changes in working capital were primarily attributable to an increase in receivables and trade and other payables of P6.8 million and P323.3 million, respectively.

NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES

For the year ended December 31, 2016, net cash flows generated from investing activities was P630.6 million, which resulted from the decrease in short-term investment by P1,700.0 million and partially offset by the additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to P831.7 million and increase in other non-current assets by P237.7 million.

For the year ended December 31, 2015, net cash flows used in investing activities was P2,864.4 million, which is significantly due to the proceeds of the initial public offering placed under short-term investments amounting P2,225.0 million and additions to property and equipment for fit outs of new stores amounting to P635.6 million.

Net cash flows used in investing activities were P3,242.4 million in 2014. The acquisition of certain retail business enterprises under common control with us comprised the majority of our investing activities in 2014.

NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES

Net cash flows used in financing activities was P1,172.5 million for the year ended December 31, 2016, primarily as a result of bank loan payments amounting to P950.0 million and payment of cash dividends amounting to P154.3 million declared on March 16, 2016.

Net cash flows from financing activities was P2,560.9 million for the year ended December 31, 2015, primarily due to proceeds of P3,360.9 million from the issuance of capital stock by way of an initial public offering, bank loan payments of P1,600.0 million net of P1,450.0 million loan proceeds and payment of cash dividends amounting to P650.0 million declared in 2015.

In 2014, the increase in net cash flows from financing activities was P2,375.0 million, primarily due to proceeds of P2,475.0 million from the issuance of capital stock subscribed by VDC and bank loan proceeds and payments of P1,400.0 million and P1,500.0 million, respectively.

INDEBTEDNESS

We have nil outstanding loans as of December 31, 2016 and P950.0 million as of December 31, 2015. The shortterm loans payable were obtained to support working capital requirements.

KEY PERFORMANCE INDICATORS

	For the years ended December 31,		
	2016	2015	2014
The Company			
Net Sales (1) (P millions)	P34,410.9	P32,304.5	P28,356.9
Average Basket Size (2) (P)	554.1	546.3	511.9
Same store sales growth (3) (%)	2.8	9.4	(1.2)
Number of Stores	50	46	43
Net selling area (4) (sqm)	224,835	201,820	192,496

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.

Statement of Management Responsibility for Financial Statements

METRO
RETAIL STORES GROUP, INC.

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, 2016 and 2015, 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, of 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 16, 2017

SUBSCRIBED AND SWORN to before me this 03 APR 2017 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	EB9732809	02 Dec 2013	DFA NCR South
Joselito G. Orense	EC0437549	28 Feb 2014	DFA Manila

Doc. No. 469
Page No. 95
Book No. XLIX
Series of 2017

ATTY. EDILBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig City
Until December 31, 2018
IBP O.R. No. 1051199 / 11-15-16
PTR No. A - 32170361 / 01-03-2017
MCLE Compliance No. V -
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Financial Statements

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc. (formerly Valueshop Market Market, Inc.), which comprise the statements of financial position as at December 31, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 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 mattes below, provide the basis for our audit opinion on the accompanying financial statements.

Existence and completeness of merchandise inventories

The Company operates 50 stores consisting of department stores, supermarkets and hypermarkets and 9 warehouses in Luzon and Visayas. As disclosed in Note 8 to the financial statements, total inventories of ₱4.01 billion represent 33% of total assets. We focused on the existence and completeness of merchandise inventories since inventories are material to the financial statements and are located in various locations across the country.

Audit response
Our audit procedures included understanding the physical inventory stock-take process, and the relevant internal control procedures in place. We observed the conduct of physical inventory stock-take procedures for selected stores and warehouses and performed test counts. We traced our test counts to the Company's inventory compilation. We reviewed the reconciliation of the merchandise inventories based on physical count with the Company's financial records and evaluated the disposition of selected reconciling items. We performed rollforward and rollback procedures for inventory movements from the physical stock-take date to year-end and tested selected purchases and sales transactions against supporting documents.

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, 2016, 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, 2016 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.

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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 Philippine Financial Reporting Standards, 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 28 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 Jessie D. Cabaluna.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908676, January 3, 2017, Makati City

March 16, 2017

METRO RETAIL STORES GROUP, INC.
(Formerly Valueshop Market Market, Inc.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 25)	**₱3,306,952,158**	₱2,351,037,390
Short-term investments (Notes 6 and 25)	**525,000,000**	2,225,000,000
Receivables (Notes 7 and 25)	**846,291,020**	839,071,118
Merchandise inventories (Note 8)	**4,014,727,305**	3,679,815,495
Other current assets (Note 9)	**280,729,767**	481,614,888
Total Current Assets	**8,973,700,250**	9,576,538,891
Noncurrent Assets		
Property and equipment (Note 10)	**2,434,897,565**	1,646,911,609
Deferred tax assets - net (Note 21)	**114,489,387**	136,795,616
Other noncurrent assets (Note 11)	**549,086,284**	311,407,142
Total Noncurrent Assets	**3,098,473,236**	2,095,114,367
TOTAL ASSETS	**₱12,072,173,486**	₱11,671,653,258
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 12 and 25)	**₱3,940,896,922**	₱3,374,242,962
Income tax payable	**202,360,756**	192,731,583
Finance lease liability - current portion (Note 22)	**42,320,291**	–
Loans payable (Notes 13 and 25)	**–**	950,000,000
Total Current Liabilities	**4,185,577,969**	4,516,974,545
Noncurrent Liabilities		
Retirement benefit obligation (Note 19)	**308,148,593**	354,685,612
Finance lease liability - net of current portion (Note 22)	**68,083,736**	–
Other noncurrent liabilities (Note 14)	**365,118,438**	354,771,064
Total Noncurrent Liabilities	**741,350,767**	709,456,676
Total Liabilities	**4,926,928,736**	5,226,431,221
Equity		
Capital stock (Note 15)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 15)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 15)	**1,210,371,451**	575,241,224
Remeasurement gains (losses) on defined benefit obligation (Note 19)	**49,956,150**	(14,936,336)
Total Equity	**7,145,244,750**	6,445,222,037
TOTAL LIABILITIES AND EQUITY	**₱12,072,173,486**	₱11,671,653,258

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
(Formerly Valueshop Market Market, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014 (Note 2)
REVENUE			
Net sales	**₱34,410,947,243**	₱32,304,453,639	₱28,356,927,573
Rental (Notes 20 and 22)	**298,394,972**	201,076,713	89,137,370
Interest and other income (Notes 5, 6 and 16)	**137,103,998**	76,116,891	95,626,449
	34,846,446,213	32,581,647,243	28,541,691,392
COSTS AND EXPENSES			
Cost of sales (Note 8)	**27,431,969,736**	25,720,747,192	22,336,596,589
Operating expenses (Note 17)	**6,271,207,000**	5,743,383,740	5,269,952,561
Finance costs (Notes 13, 14 and 22)	**22,805,794**	36,065,857	40,046,868
	33,725,982,530	31,500,196,789	27,646,596,018
INCOME BEFORE INCOME TAX	**1,120,463,683**	1,081,450,454	895,095,374
PROVISION FOR INCOME TAX (Note 21)			
Current	**336,516,418**	317,518,048	286,293,760
Deferred	**(5,504,837)**	5,331,817	(20,068,805)
	331,011,581	322,849,865	266,224,955
NET INCOME	**789,452,102**	758,600,589	628,870,419
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit obligation (Note 19)	**92,703,552**	(15,711,516)	(5,453,463)
Income tax effect (Note 21)	**(27,811,066)**	4,713,455	1,636,039
	64,892,486	(10,998,061)	(3,817,424)
TOTAL COMPREHENSIVE INCOME	**₱854,344,588**	₱747,602,528	₱625,052,995
Basic/Diluted Earnings Per Share (Note 23)	**₱0.23**	₱0.29	₱0.25

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
(Formerly Valueshop Market Market, Inc.)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 15)	Additional Paid-in Capital (Note 15)	Retained Earnings (Note 15)	Equity Reserve (Note 4)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 19)	Total
Balances at January 1, 2016	**₱3,429,375,000**	**₱2,455,542,149**	**₱575,241,224**	**₱–**	**(₱14,936,336)**	**₱6,445,222,037**
Net income for the year	**–**	**–**	**789,452,102**	**–**	**–**	**789,452,102**
Other comprehensive income	**–**	**–**	**–**	**–**	**64,892,486**	**64,892,486**
Total comprehensive income	**–**	**–**	**789,452,102**	**–**	**64,892,486**	**854,344,588**
Declaration of dividends (Note 15)	**–**	**–**	**(154,321,875)**	**–**	**–**	**(154,321,875)**
Balances at December 31, 2016	**₱3,429,375,000**	**₱2,455,542,149**	**₱1,210,371,451**	**₱–**	**₱49,956,150**	**₱7,145,244,750**
Balances at January 1, 2015	₱2,524,000,000	₱–	₱466,640,635	₱–	(₱3,938,275)	₱2,986,702,360
Net income for the year	–	–	758,600,589	–	–	758,600,589
Other comprehensive loss	–	–	–	–	(10,998,061)	(10,998,061)
Total comprehensive income	–	–	758,600,589	–	(10,998,061)	747,602,528
Declaration of dividends (Note 15)	–	–	(650,000,000)	–	–	(650,000,000)
Issuance of shares (Note 15)	905,375,000	2,455,542,149	–	–	–	3,360,917,149
Balances at December 31, 2015	₱3,429,375,000	₱2,455,542,149	₱575,241,224	₱–	(₱14,936,336)	₱6,445,222,037
Balances at January 1, 2014	₱49,000,000	₱–	₱1,430,400,283	₱1,152,767,463	(₱7,069,629)	₱2,625,098,117
Net income for the year	–	–	628,870,419	–	–	628,870,419
Other comprehensive loss	–	–	–	–	(3,817,424)	(3,817,424)
Total comprehensive income	–	–	628,870,419	–	(3,817,424)	625,052,995
Issuance of shares	2,475,000,000	–	–	–	–	2,475,000,000
Net liabilities assumed from the Retail Entities	–	–	–	29,767,162	–	29,767,162
Acquisition of Retail Business Enterprise (Notes 2 and 4)	–	–	(1,592,630,067)	(1,182,534,625)	6,948,778	(2,768,215,914)
Balances at December 31, 2014	₱2,524,000,000	₱–	₱466,640,635	₱–	(₱3,938,275)	₱2,986,702,360

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
(Formerly Valueshop Market Market, Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014 (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,120,463,683**	₱1,081,450,454	₱895,095,374
Adjustments for:			
Depreciation and amortization (Note 10)	**464,842,064**	387,127,546	344,354,264
Retirement benefits costs (Note 19)	**47,239,708**	41,677,864	39,876,938
Finance costs (Notes 13, 14 and 22)	**22,805,794**	36,065,857	40,046,868
Provision for impairment losses (Note 17)	**–**	6,645,155	–
Loss on retirement of property and equipment (Note 10)	**1,976,322**	121,168	–
Interest income (Notes 5 and 6)	**(60,878,058)**	(13,915,394)	(15,633,815)
Foreign currency exchange gains (Note 16)	**(15,245,103)**	(8,043,618)	(7,201,484)
Reversal of impairment losses (Note 7)	**–**	(1,444,547)	–
Operating income before working capital changes	**1,581,204,410**	1,529,684,485	1,296,538,145
Decrease (increase) in:			
Receivables	**(5,219,517)**	32,178,696	(6,772,065)
Merchandise inventories	**(334,911,810)**	(511,583,106)	21,586,283
Other current assets	**81,072,834**	143,064,325	57,101,365
Increase in:			
Trade and other payables	**441,621,981**	43,083,745	323,270,672
Other noncurrent liabilities	**10,347,372**	10,456,988	13,599,184
Cash flows generated from operations	**1,774,115,270**	1,246,885,133	1,705,323,584
Interest received	**58,877,673**	6,818,174	14,913,015
Income tax paid	**(326,887,245)**	(196,497,085)	(214,583,141)
Interest paid	**(22,476,312)**	(36,470,647)	(50,556,498)
Retirement benefits paid	**(1,073,175)**	–	–
Net cash provided by operating activities	**1,482,556,211**	1,020,735,575	1,455,096,960
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in short-term investments	**1,700,000,000**	(2,225,000,000)	–
Acquisitions of:			
Property and equipment (Note 10)	**(831,698,218)**	(635,609,332)	(425,177,871)
Retail Business Enterprise (Notes 2 and 4)	**–**	–	(2,735,619,789)
Increase in other noncurrent assets	**(237,679,142)**	(3,781,045)	(81,624,191)
Net cash provided by (used in) investing activities	**630,622,640**	(2,864,390,377)	(3,242,421,851)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of shares (Note 15)	**–**	3,612,446,250	2,475,000,000
Loans payable (Note 13)	**–**	1,450,000,000	1,400,000,000
Payments of:			
IPO transaction costs (Note 15)	**–**	(251,529,101)	–
Finance lease liability (Note 22)	**(68,187,311)**	–	–
Cash dividends (Note 15)	**(154,321,875)**	(650,000,000)	–
Loans payable (Note 13)	**(950,000,000)**	(1,600,000,000)	(1,500,000,000)
Net cash provided by (used in) financing activities	**(1,172,509,186)**	2,560,917,149	2,375,000,000
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**15,245,103**	8,043,618	7,201,484
NET INCREASE IN CASH AND CASH EQUIVALENTS	**940,669,665**	717,262,347	587,675,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,351,037,390**	1,625,731,425	1,030,854,832
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,306,952,158**	₱2,351,037,390	₱1,625,731,425

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Approval of the Financial Statements

Corporate Information

Metro Retail Stores Group, Inc. (formerly Valueshop Market Market, Inc.) (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003. The Company is 72.17%-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.

On June 16, 2014, the BOD approved the change in corporate name from Valueshop Market Market, Inc. to Metro Retail Stores Group, Inc. Pursuant to the BOD approval, the Company applied for SEC approval on June 27, 2014 which was subsequently approved by the SEC on July 3, 2014.

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

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

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were endorsed for approval by the Audit Risk Committee on March 9, 2017 and were approved and authorized for issue by the Board of Directors (BOD) on March 16, 2017.

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.

Restructuring Activities

Prior to the restructuring, the Metro Gaisano Family owned and operated retail stores under MRSGI and seven (7) other retail entities namely: 1) Vicsal Development Corporation (VDC); 2) Metro Legazpi Dev. Corp.; 3) Lucena City Value Shoppers, Inc.; 4) Magnetite Logistics & Gen. Merchandise, Inc.; 5) Cinnabar Gen. Merchandise & Logistics Corp.; 6) Metro Superstores Group, Inc.; and 7) Newport City Plaza Store, Inc. (collectively referred to as the "Retail Entities"). The restructuring of the retail business of the Metro Gaisano Family was undertaken with the objective of holding and managing all the retail stores of the Metro Gaisano Family under MRSGI through transfer of the respective retail store operations of the Retail Entities to MRSGI. The following restructuring activities have been carried out in order for the Company and Retail Entities to operate as a consolidated single retail entity effective August 1, 2014.

a. *Change in Accounting Period*
   To align all accounting periods of the Retail Entities and that of the Company to December 31 year end, the BOD approved MRSGI's change in accounting period from fiscal year June 30 to calendar year December 31. The change in accounting period was approved by the SEC on December 26, 2013 and approved by the Bureau of Internal Revenue on August 28, 2014.

b. *Increase in Authorized Capital Stock and Subscription of VDC*
   On June 16, 2014, the Company's BOD approved the increase in MRSGI's authorized capital stock from ₱100.00 million to ₱10,000.00 million at ₱1.00 par value. On July 3, 2014, the SEC approved the Company's increase in authorized capital stock. Of the increase in the Company's authorized capital of ₱9,900.00 million, at least 25% thereof or ₱2,480.00 million was subscribed to by VDC. The said subscription resulted to VDC owning 98% of the Company and the remaining 2% by Value Shop Stores, Inc. (VSSI) (see Note 15). Prior to the subscription, the Company was 100% owned by VSSI.

c. *Acquisition of Retail Business Enterprise*
   On June 30, 2014, MRSGI executed an "Agreement to Purchase and Sell Retail Business Enterprise" (the Agreement) with the Retail Entities to acquire their retail business. Using the proceeds of the VDC subscription, on August 1, 2014 (pursuant to the June 30, 2014 Agreement), MRSGI and the Retail Entities executed Deeds of Conveyance of Retail Business Enterprise whereby the Retail Entities sold, transferred and conveyed, absolutely and unconditionally, to MRSGI, all their rights, title, ownership, and interests in and to their respective Retail Business Enterprise.

The acquisition of Retail Business Enterprise, as discussed above, includes transfer of certain assets and liabilities, assignment of contracts and agreements with its employees, concessionaires, suppliers, service providers and other agreements necessary to retail operations. The Company has determined that the respective Retail Business Enterprise acquired from the Retail Entities have met the definition of business that should be accounted for under PFRS 3, *Business Combinations*. Also, as both the Company and Retail Entities are owned by the Metro Gaisano Family before and after the acquisition of the Retail Business Enterprise, the Company accounted for the transaction as a business combination of entities under common control and applied the pooling of interest method of which comparative prior periods reflected the effects of the business combination as if it occurred from the beginning of the earliest period presented in the financial statements.

Under the pooling of interest method, MRSGI accounted for the combination as follows:

- assets and liabilities reflected as at every year end is the combined assets and liabilities of the Retail Entities purchased and MRSGI using their existing historical carrying values prior to acquisition of the retail business enterprise;
- profit and loss and other comprehensive income reflects the full year results of the Retail Entities purchased and MRSGI, irrespective of when the restructuring took place;

- retained earnings reflects the accumulated earnings of MRSGI and the earnings of Retail Entities purchased as if the combination occurred from the beginning of the earliest period presented;
- capital stock represents the legal capital of MRSGI;
- equity reserve represents the net assets of the Retail Entities purchased at the earliest period presented plus any movements due to capital infusion, movements of other comprehensive income and difference of net assets or liabilities not acquired or assumed at the time of the purchase;
- the cash flows presented are operating, investing and financing cash flows of the Retail Entities purchased and MRSGI, irrespective of when the restructuring took place; and
- at acquisition date, the selected assets and liabilities of the Retail Entities purchased will be recognized at their carrying amounts and any difference between the total assets and liabilities at the time of purchase will be closed to equity reserve.

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 in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRSs which became effective January 1, 2016.

The nature and impact of each new standard and amendment are described below:

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  These amendments do not have any material impact on the Company.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities, and* PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)*
  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the

investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are not applicable to the Company since the Company does not have an investment in associates and joint venture.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRSs and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Company's financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact to the Company as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing PFRS preparer, this standard would not apply.

- PAS 16, *Property, Plant and Equipment, and* PAS 41, *Agriculture - Bearer Plants (Amendments)*
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated

cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* will apply. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 16, *Property, Plant and Equipment, and* PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments do not have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PIC Q&A No. 2016-02
  In 2016, the PIC issued Q&A No. 2016-02 to clarify the accounting treatment of club shares held by an entity as follows:

  PAS 32 and PAS 38 - *Accounting Treatment of Club Shares Held by an Entity*

  <u>Club shares as financial assets</u>
  Equity instruments of another entity are considered as financial assets of the investor/holder in accordance with PAS 32.11. Furthermore, PAS 32.11 defines an equity instrument as any contract that evidences a residual interest in the assets after deducting its liabilities.
  A proprietary club share entitles the shareholder to a residual interest in the net assets upon liquidation which justifies that such instrument is an equity instrument and thereby qualifies as a financial asset to be accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*.

  <u>Club shares as intangible assets</u>
  PAS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance. The key characteristics of intangible assets are that they are resources controlled by the entity from which the entity expects to derive future economic benefits, lack physical substance and are identifiable to be distinguished from goodwill.

  A non-proprietary club share, though an equity instrument in its legal form, is not an equity instrument in the context of PAS 32. Furthermore, it does not entitle the holder to a contractual right to receive cash or another financial asset from the issuing corporation. The holder of the share, in substance, only paid for the privilege to enjoy the club facilities and services but not for ownership of the club. In such case, the holder must account for the share as an intangible asset under PAS 38.

  These amendments are not expected to have any impact to the Company as the Company does not have any club shares.

Annual Improvements to PFRSs (2012-2014 cycle)
The *Annual Improvements to PFRSs* (2012-2014 cycle) are effective January 1, 2016 and the Company has applied these amendments for the first time in these financial statements. Unless otherwise stated, these amendments have no material impact on the Company's financial statements. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal (Amendments)*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts (Amendments)*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required.
  The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendments)*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate (Amendments)*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report' (Amendments)*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Standards and interpretation issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal Company that is classified) as held for sale.

  The amendments do not have any impact on the Company's financial position and results of operation. The Company will include the required disclosures in its 2017 financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Company.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Company.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is assessing the potential effect of the amendments on its financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying* PFRS 9*, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Company since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  During 2016, the Company performed a preliminary assessment of PFRS 15, which is subject to change arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by IASB in April 2016 and will monitor any further development.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses.

  The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The Company does not expect the amendments to have material impact on its financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Company does not expect the amendments to have material impact on its financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Company does not expect the amendments to have material impact on its financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases.* Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 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, *Business Combinations*. 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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

The Company does not expect the amendments to have material impact on its financial statements.

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 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 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.

Cash and Cash Equivalents

Cash pertains to cash on hand and in banks. Cash in banks represents 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 replacement 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 Instruments
Date of Recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition and Classification of Financial Instruments
Financial assets and liabilities are recognized initially at fair value. The initial measurement of financial instruments includes transaction costs.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets, as appropriate. Financial liabilities, on the other hand, are classified as financial liability at FVPL and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2016 and 2015, the Company's financial assets and financial liabilities are in the form of loans and receivables and other financial liabilities only.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and other receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2016 and 2015, the Company's loans and other receivables consist of "Cash and cash equivalents", "Short-term investments" and "Receivables" (excluding "Advances to employees and officers") in the statements of financial position.

Other Financial Liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2016 and 2015, other financial liabilities consist of "Trade and other payables" (excluding "Deferred revenue" and "Statutory payables") and "Loans payable".

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 25.

Impairment of Financial Assets
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.

Loans and Receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to receivables, a provision for impairment is made when there is no objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities
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.

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 Current Assets
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.

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.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulation.

The input VAT is recognized as an asset and will be used to offset against the Company's current output VAT liabilities. Input VAT is stated at face value less provision for impairment, if any. A provision for impairment of unrecoverable input VAT is established when there is objective evidence that the Company will not be able to recover the asset.

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.

Other Noncurrent Assets

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.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that nonfinancial assets 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 profit (loss) attributable to the Company's equity holders and dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the Company's stockholders. 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.

Equity Reserve
Equity reserve represents the effect of the application of the pooling-of-interest method as discussed under Note 2 of the financial statements. As of December 31, 2014, the consideration transferred to acquire Retail Entities is equal to the net assets purchased thus no equity reserve is recognized.

Revenue Recognition
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.

Net Sales
Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Net sales are measured at the fair value of the consideration received, net of discounts and returns.

Rental
Rental income is recognized in the statement of comprehensive income 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, and other miscellaneous income. Other income is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

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.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance Lease - Company as a Lessee
Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under the "Finance cost" account in the statement of comprehensive income while the finance lease obligation is recognized in the statement of financial position.

Leased assets shown under the "Property and equipment" account in the statement of financial position are depreciated over the useful life of the assets. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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 a Lessee
The Company has entered into various lease agreements as lessee. These lease agreements are all accounted for as operating leases since the lessor retains all significant risks and rewards of ownership of the leased properties due to the following:

- the ownership of the assets does not transfer at the end of the lease term;

- the Company has no option to purchase the assets at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is not for the major part of the economic life of the assets even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets; and
- the leased assets are not of such a specialized nature that only the Company can use them without major modifications.

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.

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 carryforward 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.

Customer Loyalty Program
The Company's customer loyalty program is used to allow their customers to accumulate points when they purchase the Company's products. The points can then be redeemed or used to pay for the purchase of the Company's merchandise inventories, subject to a minimum number of points being obtained.

The consideration received is allocated between the products sold and points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is the amount for which the award credits could be sold separately. The fair value of the points issued is deferred, presented as deferred revenue under trade and other payables in the statement of financial position and recognized as revenue when the points are redeemed.

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. Financial information on reporting segment is represented in Note 24 to the financial statements.

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

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

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

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

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

reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

The effects of any change in accounting estimates are reflected in the Company 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:

Finance Lease - Company as a Lessee
The Company has entered into lease agreements as lessee. These agreements are 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 liabilities pertaining to leased computer equipment amounted to ₱110.40 million as of December 31, 2016 (see Notes 10 and 22).

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 2016 and 2015.

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 ₱4,014.73 million and ₱3,679.82 million as of December 31, 2016 and 2015, respectively (see Note 8).

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 19 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 liability.

The Company's retirement benefits costs amounted to ₱47.24 million, ₱41.68 million and ₱39.88 million in 2016, 2015 and 2014, respectively. Retirement benefits obligation amounted to ₱308.15 million and ₱354.69 million as of December 31, 2016 and 2015, respectively (see Note 19).

4. Common Control Business Combination

As discussed in Note 2, the acquisition of Retail Business Enterprise, includes transfer of certain assets and liabilities, assignment of contracts and agreements with its employees, concessionaires, suppliers, service providers and other agreements necessary to retail operations. MRSGI accounted for the transaction as a business combination of entities under common control.

As of August 1, 2014, the total assets transferred and liabilities assumed from Retail Entities are as follows:

ASSETS	
Current Assets	
Cash	₱32,596,125
Receivables	528,184,589
Inventories	2,340,491,924
Other current assets	475,297,514
Total Current Assets	3,376,570,152
Noncurrent Assets	
Property and equipment	1,048,714,706
Other noncurrent assets	23,117,111
Total Noncurrent Assets	1,071,831,817
TOTAL ASSETS	₱4,448,401,969
LIABILITIES	
Current Liabilities	
Trade and other payables	₱1,066,286,459
Noncurrent Liabilities	
Retirement benefit obligation	301,726,407
Other noncurrent liabilities	312,173,189
Total Noncurrent Liabilities	613,899,596
TOTAL LIABILITIES	1,680,186,055
NET ASSETS	₱2,768,215,914

Following is the amount of net cash used for the purchase of Retail Business Enterprise:

Acquisition cost	₱2,768,215,914
Cash acquired	(32,596,125)
Net cash flow	₱2,735,619,789

5. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	₱116,601,205	₱107,071,368
Cash in banks	1,600,350,953	1,293,966,022
Cash equivalents	1,590,000,000	950,000,000
	₱3,306,952,158	₱2,351,037,390

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 interest at the respective short-term rates.

Interest income earned from cash and cash equivalents amounted to ₱30.57 million, ₱8.15 million and ₱15.63 million in 2016, 2015 and 2014, respectively (see Note 16).

6. Short-term Investments

These pertain to money market placements with maturities of more than three months but less than one year and earn interest ranging from 2.00% to 2.75%.

Short term investments as of December 31, 2016 and 2015 amounted to ₱525.00 million and ₱2,225.00 million, respectively.

Interest income earned from short-term investments amounted to ₱30.31 million, ₱5.77 million and nil in 2016, 2015 and 2014, respectively (see Note 16).

7. Receivables

This account consists of:

	2016	2015
Trade		
Third parties	₱771,559,360	₱721,647,508
Related parties (Note 20)	8,951,580	46,661,451
Nontrade		
Rentals	25,898,379	34,210,536
Advances to employees and officers	13,260,336	9,169,062
Related parties (Note 20)	4,913,913	2,796,664
Others	31,195,708	34,074,153
	855,779,276	848,559,374
Less allowance for impairment losses	9,488,256	9,488,256
	₱846,291,020	₱839,071,118

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 to 60 days.

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

Advances to employees and officers pertain mainly to cash advances for travel and expenses related to store operations such as purchases of supplies and other expenses.

Other receivables pertain to accrued interest receivable and other miscellaneous receivables.

Movements in the allowance for individually impaired trade receivables from third parties follow:

	2016	2015
Beginning of year	**₱9,488,256**	₱10,932,803
Provision for impairment losses (Note 17)	**–**	6,645,155
Write-off	**–**	(6,645,155)
Reversal	**–**	(1,444,547)
End of year	**₱9,488,256**	₱9,488,256

No additional allowance for impairment losses is recognized in 2016.

8. Merchandise Inventories

Summary of the movement in merchandise inventories is set out below:

	2016	2015	2014
Beginning inventory	**₱3,679,815,495**	₱3,168,232,389	₱3,189,818,672
Add purchases - net	**27,766,881,546**	26,232,330,298	22,315,010,306
Cost of goods available for sale	**31,446,697,041**	29,400,562,687	25,504,828,978
Less cost of sales	**(27,431,969,736)**	(25,720,747,192)	(22,336,596,589)
Ending inventory	**₱4,014,727,305**	₱3,679,815,495	₱3,168,232,389

No inventories have been used or pledged as security for the Company's obligations in 2016 and 2015.

No allowance for obsolescence had been recognized in 2016 and 2015.

The Company does not have any purchase commitments as of December 31, 2016 and 2015.

9. Other Current Assets

This account consists of:

	2016	2015
Advances to suppliers	**₱129,718,749**	₱342,136,202
Prepayments	**78,262,522**	58,279,867
Supplies	**72,308,365**	80,725,904
Others	**440,131**	472,915
	₱280,729,767	₱481,614,888

Advances to suppliers pertain to down payments for the Company's trade suppliers and nontrade suppliers for purchases of supplies, merchandise inventories, property and equipment and other services.

Prepayments consist of prepaid insurance and advance rental payments.

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

10. Property and Equipment

The rollforward analysis of this account follows:

2016

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱134,081,561	₱1,240,348,823	₱801,190,773	₱179,405,633	₱721,442,050	₱82,956,776	₱3,159,425,616
Additions	64,286,331	257,079,931	214,784,996	85,923,604	507,220,736	125,508,744	1,254,804,342
Retirements	(524,686)	(6,225,891)	(2,604,007)	–	–	–	(9,354,584)
Reclassification	–	–	–	–	29,411,511	(29,411,511)	–
At end of year	197,843,206	1,491,202,863	1,013,371,762	265,329,237	1,258,074,297	179,054,009	4,404,875,374
Accumulated Depreciation and Amortization:							
At beginning of year	21,920,869	776,320,022	509,055,421	20,422,763	184,794,932	–	1,512,514,007
Depreciation and amortization (Note 17)	18,665,989	191,595,740	133,212,241	36,664,672	84,703,422	–	464,842,064
Retirements	(107,214)	(5,178,157)	(2,092,891)	–	–	–	(7,378,262)
At end of year	40,479,644	962,737,605	640,174,771	57,087,435	269,498,354	–	1,969,977,809
Net Book Value	₱157,363,562	₱528,465,258	₱373,196,991	₱208,241,802	₱988,575,943	₱179,054,009	₱2,434,897,565

2015

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱85,127,986	₱1,048,859,559	₱693,673,853	₱18,207,121	₱522,775,689	₱107,747,084	₱2,476,391,292
Additions	48,953,575	191,574,007	107,586,045	161,198,512	66,466,236	107,409,817	683,188,192
Retirements	-	(84,743)	(69,125)	-	-	-	(153,868)
Reclassification	-	-	-	-	132,200,125	(132,200,125)	-
At end of year	134,081,561	1,240,348,823	801,190,773	179,405,633	721,442,050	82,956,776	3,159,425,616
Accumulated Depreciation and Amortization:							
At beginning of year	12,617,096	612,358,260	362,447,624	13,728,987	124,267,194	-	1,125,419,161
Depreciation and amortization (Note 17)	9,303,773	163,970,011	146,632,248	6,693,776	60,527,738	-	387,127,546
Retirements	-	(8,249)	(24,451)	-	-	-	(32,700)
At end of year	21,920,869	776,320,022	509,055,421	20,422,763	184,794,932	-	1,512,514,007
Net Book Value	₱112,160,692	₱464,028,801	₱292,135,352	₱158,982,870	₱536,647,118	₱82,956,776	₱1,646,911,609

In 2016, the Company acquired the store assets of Specialty Retailers, Inc. (SIAL) amounting to ₱498.81 million.

The Company leases computer equipment which was accounted for as finance lease. The carrying amount of the computer equipment amounted to ₱178.59 million and nil as of December 31, 2016 and 2015, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2016 and 2015.

There are no contractual purchase commitments for property and equipment as of December 31, 2016 and 2015.

Fully depreciated property and equipment
The cost of fully depreciated property and equipment still in use amounted to ₱516.63 million and ₱465.17 million as of December 31, 2016 and 2015, respectively.

Construction-in-progress
Construction-in-progress pertains to ongoing construction, 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.

11. Other Noncurrent Assets

This account consists of:

	2016	2015
Deposits	**₱415,378,119**	₱229,183,601
Deferred input VAT	**133,708,165**	82,223,541
	₱549,086,284	₱311,407,142

Deposits are payments to lessors and utility companies for rental and meter deposits. In 2016, the Company paid advance rentals pertaining to new lease contracts and existing contracts amounting to ₱122.67 million and ₱63.53 million, respectively. These will be offset against the Company's outstanding balance at the end of the contract term.

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.

12. Trade and Other Payables

This account consists of:

	2016	2015
Trade	**₱3,097,831,679**	₱2,465,801,362
Nontrade		
Third parties	**300,207,618**	383,354,666
Related parties (Note 20)	**7,466,024**	–
Accrued expenses	**241,136,805**	201,740,299
Deferred revenue	**133,497,200**	162,561,171
Others	**160,757,596**	160,785,464
	₱3,940,896,922	₱3,374,242,962

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

Nontrade payables consist of payables to third parties and related parties. Nontrade payables to third parties 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:

	2016	2015
Suppliers and contractors	₱67,469,119	₱58,126,582
Utilities	60,635,787	65,321,556
Marketing-related cost	34,445,937	24,870,115
Professional fees	21,885,369	19,885,176
Rentals	11,066,656	1,507,688
Others	45,633,937	32,029,182
	₱241,136,805	₱201,740,299

Deferred revenue refers to redeemable credit and gift checks and transactions arising from the Company's customer loyalty program.

Others consist of amounts payable to government agencies for mandatory contributions and payments to the Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, output tax payable and other sundry payables.

13. Loans Payable

In 2016, the Company settled the outstanding loans amounting ₱750.00 million in February 2016 and ₱200.00 million in March 2016.

Finance cost pertaining to loans payable amounted to ₱4.90 million, ₱22.25 million and ₱26.62 million in 2016, 2015 and 2014, respectively.

The Company has remaining available short-term credit facilities from various banks amounting to ₱12,000.00 million and ₱9,970.00 million as of December 31, 2016 and 2015, respectively.

On various dates in 2015, the Company availed from local banks short-term notes payable amounting to ₱1,450.00 million, bearing interest at prevailing market rates. The loans were availed and used primarily for working capital requirements. The interest rates from these notes range from 2.70% to 3.25%. As of December 31, 2015, the total outstanding balance from these short-term notes payable amounted to ₱950.00 million.

The Company has no collaterals, no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2015.

14. Other Noncurrent Liabilities

	2016	2015
Credit cash bonds	₱316,956,963	₱301,471,304
Deposits	48,161,475	53,299,760
	₱365,118,438	₱354,771,064

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 based on accumulated cash bond and purchases volume.

Finance cost included in the statements of comprehensive income pertaining to cash bonds amounted to ₱14.41 million, ₱13.82 million and ₱13.43 million in 2016, 2015 and 2014, respectively. These were settled through deduction in the credit account holders' receivable balance.

Deposits pertain to security and customers' deposits. Security deposits to be applied to last term of the lease pertain to rental deposits from tenants that lease space from the Company's stores while customers' deposits pertain to payments from customers for installment sales.

15. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2016 and 2015 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**

Initial Public Offering (IPO)

On October 14, 2015, the BOD of the Philippine Stock Exchange, Inc. (PSE), in its regular meeting, approved, subject to the conditions set out in its Notice of Approval dated October 21, 2015, the application of the Company for the initial listing of up to 3,444,000,000 common shares, with a par value of ₱1.00 per share, under the Main Board of the PSE, to cover the Company's IPO.

On November 6, 2015, the SEC through its Markets and Securities Regulation Department (MSRD) issued the Order of Registration (SEC-MSRD Order No. 75 Series of 2015) dated November 6, 2015, rendering effective the Company's Registration Statement and the registration of up to 3,429,375,000 common shares of the Company at an offer price of ₱3.99 per share. On the same day, the SEC through the MSRD issued a Certificate of Permit to Sell or Offer for Sale Securities dated November 6, 2015, covering the securities of the Company consisting of 3,429,375,000 common shares covered by SEC-MSRD Order No. 75 Series of 2015.

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.

The Company has 20 and 8 existing shareholders as of December 31, 2016 and 2015, 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, 2016 and 2015.

Retained Earnings
On March 16, 2016, the BOD approved the declaration of cash dividends amounting to ₱154.32 million or ₱0.045 per share, out of the Company's retained earnings as of December 31, 2015, to stockholders of record as of April 4, 2016 and was paid on April 20, 2016.

On July 27, 2015, the BOD approved the declaration of cash dividends amounting to ₱650.00 million out of the Company's retained earnings as of June 30, 2015 to stockholders of record as of July 10, 2015 to be paid on September 18, 2015 and December 18, 2015.

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, 2016 amounted to ₱1,056.60 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 during the year. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2016	2015
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**1,210,371,451**	575,241,224
	₱7,095,288,600	₱6,460,158,373

16. Interest and other income

	2016	2015	2014
Interest income (Notes 5 and 6)	**₱60,878,058**	₱13,915,394	₱15,633,815
Foreign currency exchange gains	**15,245,103**	8,043,618	7,201,484
Scrap sales	**12,031,896**	14,624,197	40,559,485
Others	**48,948,941**	39,533,682	32,231,665
	₱137,103,998	₱76,116,891	₱95,626,449

Interest income pertains to the interest earned from cash placements and deposits in banks.

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

Others significantly pertain to income from various sources such as parking income and vendor portal fees, and others.

17. Operating Expenses

	2016	2015	2014
Personnel cost (Note 18)	**₱2,097,777,012**	₱1,981,527,025	₱1,765,493,715
Rental (Notes 20 and 22)	**1,461,854,564**	1,269,388,075	1,073,564,983
Light, water and communication	**766,262,873**	730,069,018	691,167,043
Depreciation and amortization (Note 10)	**464,842,064**	387,127,546	344,354,264
Contracted services	**386,903,911**	354,810,542	358,519,396
Taxes and licenses	**282,779,782**	250,390,498	237,970,220
Advertising	**196,599,764**	210,011,048	247,656,043
Supplies	**169,032,437**	162,088,334	201,326,134
Repairs and maintenance	**121,962,962**	109,716,168	105,677,780
Commission	**103,282,917**	99,828,222	91,178,191
Transportation and travel	**87,876,555**	77,560,683	67,210,782
Professional fees	**47,051,238**	26,719,940	32,461,647
Insurance	**29,722,785**	27,113,186	23,738,585
Subscriptions	**23,391,097**	38,111,704	12,362,859
Provision for impairment losses (Note 7)	**-**	6,645,155	-
Others	**31,867,039**	12,276,596	17,270,919
	₱6,271,207,000	₱5,743,383,740	₱5,269,952,561

Others pertain to representation, entertainment, donations and contributions.

18. Personnel Cost

	2016	2015	2014
Salaries and wages	**₱1,762,420,237**	₱1,666,424,782	₱1,485,089,669
Retirement benefits costs (Note 19)	**47,239,708**	41,677,864	39,876,938
Other employee benefits	**288,117,067**	273,424,379	240,527,108
	₱2,097,777,012	₱1,981,527,025	₱1,765,493,715

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

19. Retirement Benefit Obligation

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

The following tables summarize the components of the retirement 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:

	2016	2015	2014
Current service cost	**₱29,150,742**	₱27,704,941	₱25,514,886
Interest cost	**18,088,966**	13,972,923	14,362,052
	₱47,239,708	₱41,677,864	₱39,876,938

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

	2016	2015	2014
Actuarial gain (loss) due to:			
Experience adjustments	**₱24,277,645**	(₱33,861,242)	(₱47,989,531)
Changes in financial assumptions	**68,425,907**	18,149,726	42,536,068
	₱92,703,552	(₱15,711,516)	(₱5,453,463)

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

	2016	2015
Balance at beginning of year	**₱354,685,612**	₱297,296,232
Current service cost	**29,150,742**	27,704,941

(forward)

Interest cost	**18,088,966**	13,972,923
Benefits paid	**(1,073,175)**	–
Actuarial (gain) loss due to:		
Experience adjustments	**(24,277,645)**	33,861,242
Changes in financial assumptions	**(68,425,907)**	(18,149,726)
Balance at end of year	**₱308,148,593**	₱354,685,612

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

	2016	2015	2014
Salary increase rate	**3.00%**	4.00%	4.00%
Discount rate	**5.70%**	5.10%	4.70%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant.

	2016		2015	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+0.5%**	**(₱18,032,656)**	+0.5%	(₱20,925,280)
	-0.5%	**19,692,742**	-0.5%	22,897,346
Salary increase rate	**+0.5%**	**₱19,692,742**	+0.5%	₱22,055,732
	-0.5%	**(18,032,656)**	-0.5%	(20,359,043)

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:

	2016	2015
1 year and less	**₱–**	₱–
More than one year to 5 years	**75,069,710**	98,019,593
More than 5 years to 10 years	**101,939,596**	132,136,314
More than 10 years to 15 years	**235,256,258**	249,990,172
More than 15 years to 20 years	**1,644,132,627**	1,811,364,465
	₱2,056,398,191	₱2,291,510,544

The weighted average duration of the defined benefit obligation is 14 years in 2016 and 2015.

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 equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, noninterest-bearing and settlement occurs 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, 2016 and 2015 are as follows:

December 31, 2016

	Amount/Volume for the year ended December 31, 2016	**Outstanding Balance as of December 31, 2016**	**Terms and Conditions**
Parent Company (VDC)			
Rental expense	**(₱810,762,065)**	**(₱7,466,024)**	**Noninterest-bearing and due in 30 days, unsecured**
Advances	**6,258,686**	**4,913,913**	**Noninterest-bearing and due in 30 days, not impaired**
Management fee	**(21,838,200)**	**–**	**Noninterest-bearing and payable in 30 days, unsecured**
Entities Under Common Control			
Purchase, sale of goods and services and rental income	**(987,740,614)**	**8,951,580**	**Noninterest-bearing and payable in 30 days, not impaired**
Due from (to) related parties		**₱6,399,469**	

December 31, 2015

	Amount/Volume for the year ended December 31, 2015	Outstanding Balance as of December 31, 2015	Terms and Conditions
Parent Company (VDC)			
Rental expense	(₱715,241,550)	₱2,796,664	Noninterest-bearing and due in 30 days, not impaired
Advances	(14,365,285)	–	Noninterest-bearing and due in 30 days, not impaired
Entities Under Common Control			
Purchase, sale of goods and services and rental income	(1,300,113,934)	46,661,451	Noninterest-bearing and payable in 30 days, not impaired
Due from (to) related parties		₱49,458,115	

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

a. rental expense from leases for the Company's store spaces and warehouses;
b. short-term noninterest-bearing payables/receivables in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions;
c. purchases of goods, services and concession activities;
d. rent income from related party tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days;
e. management fee pertaining to legal and other services

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱972.20 million which earn interest based on prevailing market interest rates.

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

	2016	2015	2014
Short-term employee benefits	**₱140,638,971**	₱121,533,053	₱77,578,612
Post-employment benefits	**5,344,303**	5,376,444	5,144,125

There are no amounts due to or due from members of key management as of December 31, 2016 and 2015.

The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2016 and 2015. 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.

21. Income Taxes

Provision for income tax consists of:

	2016	2015	2014
Current			
RCIT	**₱325,487,583**	₱315,719,159	₱283,679,679
Final	**11,028,835**	1,798,889	2,614,081
	336,516,418	317,518,048	286,293,760
Deferred	**(5,504,837)**	5,331,817	(20,068,805)
	₱331,011,581	₱322,849,865	₱266,224,955

The components of the deferred tax asset of the Company are as follows:

	2016	2015
Retirement benefit obligation (Note 19)	**₱92,444,578**	₱106,405,684
Deferred revenue from customer loyalty program	**19,198,332**	27,543,455
Allowance for impairment of receivables (Note 7)	**2,846,477**	2,846,477
	₱114,489,387	₱136,795,616

The Company recognized deferred tax liability amounting to ₱27.81 million in 2016 and deferred tax asset amounting to ₱4.71 million in 2015 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:

	2016	2015	2014
Tax at 30% on income before tax	**₱336,139,105**	₱324,435,136	₱268,528,612
Tax effects of:			
Nondeductible expenses	**1,477,765**	1,113,063	1,617,464
Income subjected to final tax	**(6,605,289)**	(2,698,334)	(3,921,121)
	₱331,011,581	₱322,849,865	₱266,224,955

22. Lease Commitments

Operating leases - Company as lessee

The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. These leases have terms ranging from one to twenty five 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.

Rental expense amounted to ₱1,461.85 million ₱1,269.39 million and ₱1,073.56 million in 2016, 2015 and 2014, respectively (see Note 17).

Minimum lease payments amounted to ₱1,082.43 million, ₱1,040.59 million and ₱691.38 million in 2016, 2015 and 2014, respectively.

Contingent rent payments amounted to ₱379.42 million, ₱228.80 million and ₱382.18 million in 2016, 2015 and 2014, respectively.

Payments made for sublease rentals amounted to ₱802.00 million, ₱709.33 million and nil in 2016, 2015 and 2014, respectively.

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.

Rental income amounted to ₱298.39 million, ₱201.08 million and ₱89.14 million in 2016, 2015 and 2014, respectively.

Finance lease - Company as lessee
The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company. As of December 31, 2016 and 2015, carrying amount of the leased computer equipment amounted to ₱178.59 million and nil, respectively (See Note 10).

The finance lease obligation amounted to ₱110.40 million and nil in 2016 and 2015, respectively.

The components are as follows:

Gross finance lease obligation:	
Not later than one year	₱45,946,764
Later than one year but no later than five years	73,025,485
	₱118,972,249
Future finance lease charges:	
Not later than one year	₱3,626,473
Later than one year but no later than five years	4,941,749
	₱8,568,222
	₱110,404,027

The present value of minimum lease payments as of December 31, 2016 is as follows:

Gross finance lease obligation:	
Not later than one year	₱42,320,291
Later than one year but no later than five years	68,083,736
	₱110,404,027

The finance cost related to finance lease obligation amounted to ₱3.50 million in 2016.

23. Earnings Per Share

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

	2016	2015	2014
Net income	₱789,452,102	₱758,600,589	₱628,870,419
Weighted-average number of common shares	3,429,375,000	2,599,447,917	2,524,000,000
Basic/Diluted EPS	₱0.23	₱0.29	₱0.25

The Company also assessed that there were no potential dilutive common shares as of December 31, 2016, 2015 and 2014.

In line with the Company's IPO on November 24, 2015, the weighted-average number of shares in 2015 considered changes in the outstanding number of shares during that year. The Company has an outstanding common shares of 3,429,375,000 as of December 31, 2016 and 2015, respectively. Using the outstanding common shares as of December 31, 2016 and 2015 in computing the earnings per share, the Company per share income is ₱0.23 and ₱0.22 in 2016 and 2015, respectively.

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

<u>Financial Risk Management Objectives and Policies</u>
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, 2016 and 2015 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, 2016

	On Demand	**Within Three (3) Months**	**More than Three (3) Months**	**Total**
Financial Liabilities:				
Trade and other payables				
Trade	₱–	₱3,097,831,679	₱–	₱3,097,831,679
Non-trade				
Third parties	–	179,824,663	120,382,955	300,207,618
Related parties	–	7,466,024	–	7,466,024
Accrued expenses	–	241,136,805	–	241,136,805
Others*	–	15,670,725	–	15,670,725
	₱–	₱3,541,929,896	₱120,382,955	₱3,662,312,851

** Others excludes statutory payables*

December 31, 2015

	On Demand	Within Three (3) Months	More than Three (3) Months	Total
Financial Liabilities:				
Trade and other payables				
Trade	₱–	₱2,465,801,362	₱–	₱2,465,801,362
Non-trade	–	193,361,025	189,993,641	383,354,666
Accrued expenses	–	201,740,299	–	201,740,299
Others*	–	53,707,100	–	53,707,100
Loans payable	–	950,000,000	–	950,000,000
	₱–	₱3,864,609,786	₱188,993,641	₱4,054,603,427

** Others excludes 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:

	2016			
	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	**₱771,647,508**	**₱316,956,963**	**₱420,176,204**	**₱316,956,963**
Related parties	**8,951,580**	**–**	**8,951,580**	**–**
Nontrade				
Rentals	**25,898,379**	**43,778,644**	**–**	**43,778,644**
Related parties	**4,913,913**	**–**	**4,913,913**	**–**
Others	**31,195,708**	**–**	**31,195,708**	**–**
	₱842,607,088	**₱360,735,607**	**₱503,708,472**	**₱360,735,607**

	2015			
	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	₱721,647,508	₱301,471,304	₱420,176,204	₱301,471,304
Related parties	46,661,451	–	46,661,451	–
Nontrade				
Rentals	34,210,536	44,825,165	–	44,825,165
Related parties	2,796,664	–	2,796,664	–
Others	34,074,153	–	34,074,153	–
	₱839,390,312	₱346,296,469	₱503,708,472	₱346,296,469

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

Credit quality per class of financial asset

The Company makes provisions, where necessary, for potential losses on credits extended. The credit quality per class of financial assets that were neither past due nor impaired is as follows:

December 31, 2016

	Neither Past Due Nor Impaired		Past Due		
	High Grade	Standard Grade	But Not Impaired	Individually Impaired	Total
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	525,000,000
Receivables					
Trade					
Third parties	709,501,684	–	52,569,420	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	8,951,580
Nontrade					
Rentals	25,898,379	–	–	–	25,898,379
Related parties	4,913,913	–	–	–	4,913,913
Others	31,195,708	–	–	–	31,195,708
	₱4,495,812,217	₱–	₱52,569,420	₱9,488,256	₱4,557,869,893

**Cash and cash equivalents excludes cash on hand*

December 31, 2015

	Neither Past Due Nor Impaired		Past Due		
	High Grade	Standard Grade	But Not Impaired	Individually Impaired	Total
Cash and cash equivalents*	₱2,243,966,022	₱–	₱–	₱–	₱2,243,966,022
Short-term investments	2,225,000,000	–	–	–	2,225,000,000
Receivables					
Trade					
Third parties	663,334,959	–	48,824,293	9,488,256	721,647,508
Related parties	46,661,451	–	–	–	46,661,451
Nontrade					
Rentals	34,210,536	–	–	–	34,210,536
Related party	2,796,664	–	–	–	2,796,664
Others	34,074,153	–	–	–	34,074,153
	₱5,250,043,785	₱–	₱48,824,293	₱9,488,256	₱5,308,356,334

**Cash and cash equivalents excludes cash on hand*

High grade receivables pertain to those receivables from clients or customers that consistently pay before the maturity date. Standard grade receivable includes those that are collected on their due dates even without an effort from the Company to follow them up. Past due receivables include those that are either past due but still collectible or determined to be individually impaired. The aging analysis of the Company's loans and receivables are as follows:

December 31, 2016

	Neither past due nor Impaired	Past due but not impaired			Individually Impaired	Total
		Less than 30 days	30 - 60 days	More than 60 Days		
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	–	525,000,000
Receivables:						
Trade						
Third parties	709,501,684	33,495,550	5,005,764	14,068,106	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	–	8,951,580
Nontrade						
Rentals	25,898,379	–	–	–	–	25,898,379
Related parties	4,913,913	–	–	–	–	4,913,913
Others	31,195,708	–	–	–	–	31,195,708
	₱4,495,812,217	₱33,495,550	₱5,005,764	₱14,068,106	₱9,488,256	₱4,557,869,893

**Cash and cash equivalents excludes cash on hand*

December 31, 2015

	Neither past due nor Impaired	Past due but not impaired Less than 30 days	30 - 60 days	More than 60 Days	Individually Impaired	Total
Cash and cash equivalents*	₱2,243,966,022	₱–	₱–	₱–	₱–	₱2,243,966,022
Short-term investments	2,225,000,000	–	–	–	–	2,225,000,000
Receivables:						
Trade						
Third parties	663,334,959	23,475,142	4,542,815	20,806,336	9,488,256	721,647,508
Related parties	46,661,451	–	–	–	–	46,661,451
Nontrade						
Rentals	34,210,536	–	–	–	–	34,210,536
Related parties	2,796,664	–	–	–	–	2,796,664
Others	34,074,153	–	–	–	–	34,074,153
	₱5,250,043,785	₱23,475,142	₱4,542,815	₱20,806,336	₱9,488,256	₱5,308,356,334

**Cash and cash equivalents excludes cash on hand*

Fair Value of Financial Instruments

The fair value of the Company's financial instruments approximates the carrying amount as of December 31, 2016 and 2015.

Financial Assets

Due to the short-term nature of the transaction, the fair values of "Cash and cash equivalents" "Short-term investments" and "Receivables" (excluding "Advances to employees and officers" and "Others") approximate the carrying values at year-end.

Financial Liabilities

Due to the short-term nature of "Trade and other payables" (excluding "Deferred revenue" and "Statutory payables"), and "Loans payable" their carrying values approximate 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: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2016 and 2015, the Company has no financial asset and liability carried at fair value. There were no transfers among Levels 1, 2 and 3 in 2016 and 2015.

26. Events after the Reporting Period

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

27. Notes to Statements of Cash Flows

The Company's noncash investing activities for the year ended December 31, 2016 are as follows:

a) Purchases of property and equipment which remains unpaid amounted to ₱124.70 million.
b) In 2016, the Company leased computer equipment amounting to ₱178.59 million which were accounted for as finance lease. The carrying amount of the finance lease liability amounted to ₱110.40 million (see Note 22).
c) Transfers from advances to suppliers to property and equipment amounted to ₱119.81 million.

28. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2016:

Value added tax (VAT)
The National Internal Revenue Code (NIRC) of 1997 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. 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 2016 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱31,069,691,139	₱3,728,362,937
Zero-rated sales	82,345,544	–
Tax-exempt sales	3,750,987,529	–
	₱34,903,024,212	₱3,728,362,937

The Company's vatable sales are based on actual collections received, hence may not be the same as amounts accrued in the statements of comprehensive income.

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

Beginning of the year	₱17,008,597
Input tax on purchases of goods exceeding P1 million deferred from prior period	82,223,542
Current year's domestic purchases of goods	3,409,847,130
Current year's capital goods purchases	84,802,658
Services rendered by nonresident	69,404
Total available input VAT	3,593,951,331

(forward)

Less: deductions from input VAT

Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	133,708,165
Input tax allocable to exempt sales	30,591,065
Input tax on sales to government closed to expense	1,198,152
Total allowable input tax	₱3,428,453,949

Taxes and Licenses

The following are taxes, licenses, registration fees and permit fees lodged under "Taxes and Licenses" account under expenses for the year ended December 31, 2016.

Business tax	₱210,067,020
Real property tax	56,281,086
Documentary tax	10,712,549
Motor vehicle tax	58,209
Others	5,660,918
	₱282,779,782

Withholding taxes

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

Expanded withholding taxes	₱422,392,952
Tax on compensation and benefits	150,056,697
Final withholding taxes	5,178,031
Fringe benefit taxes	347,198
	₱577,974,878

Tax Assessment and Cases

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


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METRO DEPARTMENT STORE

SUPER METRO

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RETAIL STORES GROUP, INC.

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