
METRO
RETAIL STORES GROUP, INC.


# ANNUAL REPORT 2021

## UNLOCKING OPPORTUNITIES

# METRO RETAIL STORES GROUP, INC.

# UNLOCKING OPPORTUNITIES

## 2021 ANNUAL REPORT

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Welcome to the
Metro Pabili service!
I'm Mae and I'll be
your personal shopper
at The Metro Stores!


METRO
Pabili!
1
Call, Text,
or Viber
0917-88-METRO
(0917-88-63876)
2
Pay
via credit/debit card
METRO
METRO

# VALUES

**M**ake our **CUSTOMERS** happy.

**E**ngage with our **COMMUNITIES**.

**T**ake care of our **ENVIRONMENT**.

**R**eturns for our **SHAREHOLDERS**.

**O**ur **PEOPLE** are our partners.

# MISSION

To delight our customers with products and services that give the best value for money in exciting ways.

# VISION

By 2025, we will be an agile retail-based company in the Philippines that provides best-in-class customer experience through operational excellence.


PALOMINO


Four Seasons

# HISTORY AND MILESTONES

In 1982, Victor Gaisano and his wife Sally built the first Gaisano Metro Department Store and Supermarket in Colon, Cebu City. They started the business from very humble beginnings with their children - Margaret, Jack, Edward, and Frank.

Eventually, Gaisano Metro was renamed Metro Gaisano, and through the years evolved into what is now known as Metro Department Store and Supermarket. Metro remains at the forefront as the premier homegrown retailer from Cebu. Much more than the capital that started the business, the core values set forth by its patriarch serve as the foundation of the business, which has advanced from a start-up to the present professional organization.

Consequently, an aggressive expansion brought Metro to major cities outside Cebu and the Visayas region. Metro established its presence in Central Luzon, Southern Luzon, National Capital Region, CALABARZON, and the Bicol region.

Today, Metro Retail Stores Group, Inc. (MRSGI) has transformed itself into a company encompassing multiple store formats: Metro Department Store, Metro Supermarket, Super Metro Hypermarket; and has grown into a company of over 6,000 employees with 61 stores serving the needs of its customers.

It has been an eventful 39 years of operations from the time Metro started as Gaisano Metro, to Metro Gaisano, and to the present MRSGI. And it has all been for the good.

Victor Gaisano and his family proved that good products and good services can only go so far, but a good name built on hardwork and trust, is what wins loyalty in customers.

The second-generation Gaisano siblings are never remiss in looking back at where their parents, Victor and Sally, started. Their businesses are a testament to hardwork and perseverance backed by two generations of successful entrepreneurs led by their parents.

For some, having a good business sense is a gift. But most of the time, good business sense is simply a long-term vision of greater things for something presently small. This is exactly what Victor and Sally Gaisano had for Metro.

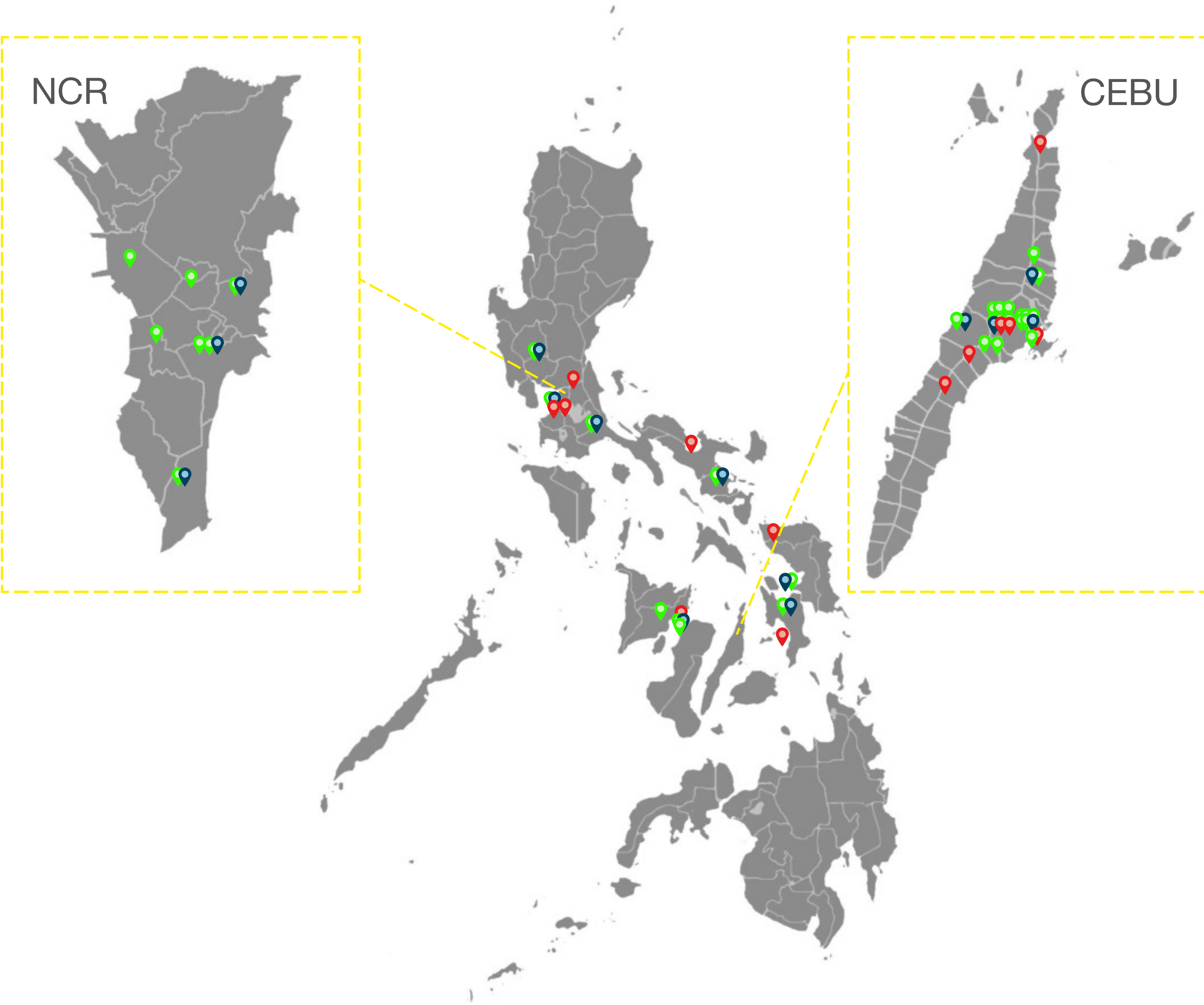
*Our people and drive for constant improvement are key to our success.*

*– Mr. Victor Gaisano*

# STORE NETWORK

AS OF 31 DECEMBER 2021

| | Supermarket | Department Store | Hypermarket |
|---|---|---|---|
| NCR | 7 | 3 | - |
| Luzon | 4 | 4 | 4 |
| Visayas | 22 | 8 | 9 |
| **Total** | **33** | **15** | **13** |



*Responsive to the needs and changing lifestyles of Filipinos, Metro Retail Stores Group, Inc. is a trusted provider of quality merchandise and a wide assortment of products featuring both local and international brands at competitive prices.*

# **METRO** DEPARTMENT STORE

From the basic to the more stylish buys, Metro shoppers will find their every need under one curated store. Metro Department Store is also known for its efficient customer service and dedication to deliver a great shopping experience for everyone. Currently, there are fifteen (15) Metro Department Stores across the country.



- Metro Alabang Town Center
- Metro Ayala Center Cebu
- Metro Ayala Pasig
- Metro Bacolod
- Metro Baybay
- Metro Colon
- Metro Danao
- Metro Legazpi
- Metro Lucena
- Metro Mandaue
- Metro Market! Market!
- Metro Marquee Mall Angeles
- Metro Tacloban
- Metro The District Imus
- Metro Toledo

# **METRO** SUPERMARKET

Customers regularly come to Metro Supermarket for its wide range of products - from the freshest-of-the-fresh produce, meat, poultry, and seafood to basic household supplies complemented by its complete selection of international products. A world-class shopping experience is always guaranteed in its thirty-three (33) locations across the country that all adhere to global safety standards.



Metro Alabang Town Center
Metro Atria
Metro Ayala Center Cebu
Metro Ayala Pasig
Metro Bacolod
Metro Baybay
Metro Binondo Lucky Chinatown
Metro Canduman
Metro Carmen
Metro Cebu IT Park
Metro Colon
Metro Danao

Metro Fresh ‘N Easy Banilad
Metro Fresh ‘N Easy Basak
Metro Fresh ‘N Easy Mactan
Metro Fresh ‘N Easy Minglanilla
Metro Fresh ‘N Easy Punta

Metro Legazpi
Metro Lucena
Metro Mandaluyong
Metro Mandaue
Metro Market! Market!
Metro Marquee Mall Angeles
Metro Plaza 66 Newport City
Metro Sum-ag
Metro Tacloban
Metro The District Imus
Metro Toledo

Metro Fresh ‘N Easy Tabok
Metro Fresh ‘N Easy Tabunok
Metro Fresh ‘N Easy Taguig
Metro Fresh ‘N Easy Umapad
Metro Wholesale Mart Colon

# SUPER METRO HYPERMARKET

Super Metro Hypermarket offers ease and convenience - aligned with the bustling lifestyle of today's shoppers. Meticulously designed to serve as a one-stop shop that offers an expansive selection of general merchandise, groceries, and other food items – Super Metro Hypermarket is the choice of many smart shoppers who want to get the best value for their money. Super Metro Hypermarket is currently present in thirteen (13) strategic locations nationwide.



Super Metro Antipolo
Super Metro Bogo
Super Metro Calamba
Super Metro Calbayog
Super Metro Camarines Sur
Super Metro Carcar
Super Metro Colon

Super Metro Lapu-Lapu
Super Metro Maasin
Super Metro Mambaling
Super Metro Naga
Super Metro North Point Tagaytay
Super Metro Talisay

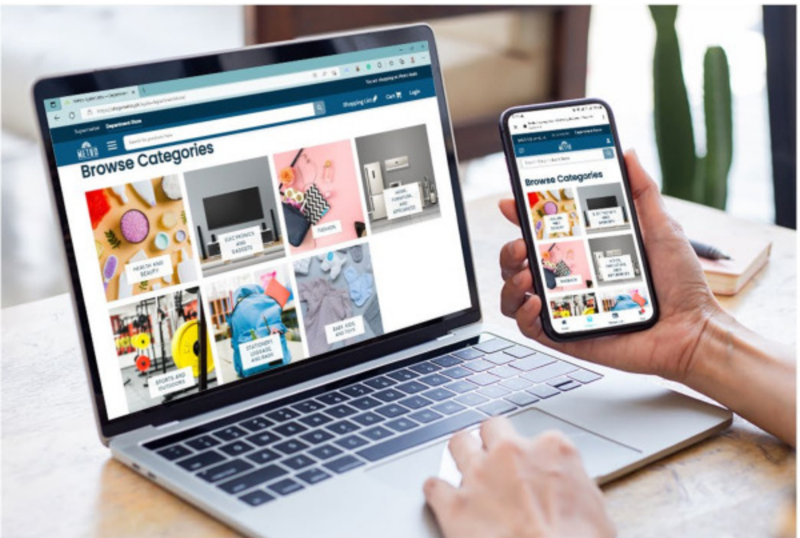
# E-COMMERCE AND MOBILE COMMERCE

Adapting to the more digitally transformed retail space, MRSGI accelerated its e-commerce initiatives and further developed its digital assets. In July 2020, during the height of the global COVID-19 pandemic, the Company launched shop.themetrostores.ph (now, shopmetro.ph) – which serves as the Company's online platform for both its Supermarket and Department Store and allows shoppers to have their orders delivered at their doorstep. The online store offers more than 9,000 products through sixteen (16) participating Metro stores across Luzon and Visayas. In the past two years, the site continues to improve and has since gone through a series of enhancements which includes the addition of a dynamic search bar that allows users to immediately view product images as they type in their queries, a Shopping List function that allows them to add and save regularly purchased items, and the "one-basket" feature that lets shoppers select and add products across the supermarket and department store categories under one cart.

Several innovations are also set for launch as MRSGI works towards upgrading its e-commerce platform that will provide shoppers with a more seamless and convenient shopping experience. These include the migration of the Company's online store to Progressive Web App (PWA), which will enable customers to experience mobile app-like features and access to the site anywhere at any device.

MRSGI continues to forge partnerships in line with its commitment to grow its e-commerce business. Strategic partners including GrabMart and Pushkart will ultimately enable MRSGI to continue meeting changing customer demands even beyond the pandemic. In terms of mobile commerce, MRSGI offers the convenience of hassle-free shopping through its *Metro Pabili* service. Through *Metro Pabili*, customers can easily reach out to their preferred Metro store via call, text, and Viber, and order groceries and other essentials all at the safety of their homes.

MRSGI continues to push forward its e-commerce and mobile commerce offerings as it aims to give its customers a pleasant shopping experience and one that will truly make life easy.




# ANCILLARY BUSINESSES

Metro's complementary outlets enable shoppers to enhance their overall shopping experience.


## METRO PHARMACY

serves the needs for health and wellness products with its competitively priced branded and generic medicines from top pharmaceutical companies.

## FOOD AVENUE

showcases a wide selection of delicious and affordable meals that can be enjoyed in a comfortable, vibrant, and modern food court ambience.



## SUISSE COTTAGE

prepares freshly baked breads, cakes, and pastries for any occasion, all handmade using the finest quality ingredients.

# MESSAGE FROM THE CHAIRMAN

"Despite the setbacks, we can continue to perform and even go beyond, to unlock opportunities that deliver greater value to the MRSGI brand for all our stakeholders ."

Dear Shareholders,

After another year of extraordinary circumstances and challenges, we have emerged with a renewed appreciation for the values that cultivate us, greater trust in our resilience as a company, and stronger faith in what the future holds.

Our performance over the last year is a clear indication that Metro Retail Stores Group, Inc. (MRSGI) is well-positioned heading into 2022. Key strategic efforts amidst continued uncertainties and revenue constraints enabled us to sustain our growth momentum just as the markets started reopening in the fourth quarter. Our people were able to act nimbly to launch programs, implement operational adjustments, maintain safety measures, and serve customers with a staunch commitment to excellence.

**Unlocking greater value**

All these have taught us that, despite the setbacks, we can continue to perform and even go beyond, to unlock opportunities that deliver greater value to the MRSGI brand for all our stakeholders. This is the result of decades of nurturing our customers' trust and taking great pride in our heritage.

**Strengthening trust through safety**

In the face of the most challenging demands, we were able to pull together as a team by meeting, first and foremost, the basic necessities for the health and safety of our customers and employees. Consistently, MRSGI is maintaining an environment that reassures our stakeholders' interests in order to successfully rebuild the energies and connectivity of working together and serving our customers face to face.

Supporting people's well-being is core to our purpose, and collaborating with our government regulators is instrumental to achieve this. Our store operations managers and employees put forth a concerted effort to ensure that all our branches comply with the Department of Trade and Industry's Safety Seal Certification, which became a prominent reassurance to our customers of the enforcement of stringent health measures on our premises. Combined with the dedication of our frontliners in donning protective equipment and regularly sanitizing common areas and facilities, these measures helped build consumer confidence that is manifested by the increasing foot traffic in our stores.

**Continuous expansion**

Our brick-and-mortar footprint remains key to driving the Company's growth. We managed to fully reopen our flagship store Metro Ayala Center Cebu and open four new stores in 2021 – Metro Danao Supermarket in February, Metro Tacloban Department Store in March, Metro Danao Department Store in April, and Metro Sum-Ag Supermarket in June – pursuant to our expansion in underserved areas, especially in the countryside.

We also completed the acquisition of a site in Laguna for our own distribution center, which will serve as a launch point for further expansion in Luzon. We remained relentless in our efforts to strengthen the MRSGI brand while keeping our financial position strong.

In line with our expansion plans, we aggressively pursued our e-commerce program to adapt to the shifts in consumer behavior. We pushed for enabling a frictionless omnichannel strategy to drive both our online and offline initiatives, while we continued to upgrade our online market platform – shopmetro.ph, in order to serve our customers better.

We also extended our digital ecosystem by establishing strategic partnerships with leading e-commerce enablers such as GrabMart, Pushkart, and online payments and last-mile logistics providers. MRSGI improved its operational capabilities as well to facilitate a seamless customer experience.

While we search for external growth opportunities, we assess our internal processes to unlock greater value in our operations. The space rationalization and cutback in utilities and administrative expenses, among other cost reduction measures that we implemented in 2020, continued in 2021 to improve our operating efficiencies and boost the Company's returns. These transformation initiatives were necessary to ensure business continuity and improved profitability.

**Community engagement**

Our commitment to the welfare, health, environment, and sustainability of our communities has always been a guiding principle of MRSGI. Hence, putting them and other stakeholders at the center of everything we do involves our constant engagement and prompt response to their needs through our corporate social responsibility initiatives.

We highlight the importance of social media in this regard, as it enables us to communicate with our stakeholders and even respond immediately to calamities, such as what transpired at the close of 2021 when typhoon Odette hit the Visayas region. Through our disaster relief program called *Paghiusa Visayas*, MRSGI mobilized a fund drive for cash and in-kind donations from stakeholders nationwide in solidarity with those affected by the calamity.

We continued our support for the bustling trade of micro, small, and medium enterprises (MSMEs) by partnering with entrepreneurs and organizations across the country to showcase their products through a succession of events that celebrated the Filipino diversity and spirit of service amid the pandemic. Through our partnership with the Department of Trade and Industry, we launched the *Bayanihang Metro-Go Lokal* in two of our flagship stores, Metro Market! Market! in Taguig City and Metro Ayala Center Cebu, to promote the high quality of local goods and help stimulate the growth of MSMEs.

Following the success of its online format in 2020, MRSGI also mounted the award-winning Virtual Metro Community Bazaar, another endeavor that extended support to MSMEs by providing an online portal to showcase and market their means of livelihood to the public.

For over three decades, MRSGI's initiatives have served not only to improve the lives of Filipinos but also as vehicles for our customers to make a positive impact on the communities. Our corporate social responsibility programs will continue to touch on opportunities to provide education to underprivileged yet deserving youths, improve local livelihood, care for the environment, and serve the community.

After another year of significant challenges and unlocking opportunities, I wish to thank once again our employees, customers, business partners, and shareholders. Your adaptability, patience, trust, and determination to make the best of these difficult circumstances fueled our performance. Because of you, we are able to face another year ahead with much greater optimism and confidence.

Sincerely,

***Frank S. Gaisano***
***Chairman and Chief Executive Officer***

# PRESIDENT'S REPORT

> We are now moving forward from this pandemic with a sharpened business sense and intensified desire to further capitalize on every positive prospect in the face of an evolving retail landscape.

Dear Shareholders,

If there is anything that we can take away from our collective COVID-19 experience, it is the fact that we can call upon our higher selves to respond not only to the needs of our customers and our people but also to the communities where we are present. Along with our abilities to draw up effective strategies for minimizing shortfalls and unlocking growth opportunities, these realizations amidst the challenging landscape we faced have made me proud of what we have accomplished.

As we remain resolute in ensuring the health and safety of every member of our organization, we also continue to strengthen our capacity to deliver, recognizing that this is crucial in our journey towards recovery.

We are now moving forward from this pandemic with a sharpened business sense and intensified desire to further capitalize on every positive prospect in the face of an evolving retail landscape, improving consumer spending, and an optimistic economic outlook for the year ahead. We expect to see consumer behavior to be constantly changing – but the value for money, product accessibility, and excellent service delivery will remain significant factors of superior customer experience. These are the essentials of retail that we will continue to deliver and strengthen.

Staying true to this purpose and finding new ways to create value for all stakeholders pave a path for us to grow our profits, enhance our business processes, and expand our network.

**Recovery in numbers**

Our performance for 2021 was heavily influenced by pandemic-related disruptions and the devastating impact of Typhoon Odette, which ravaged the Visayas area in December. Despite these, we ended 2021 with a positive stance and registered an operating income of PhP84.99 million, a reversal from the PhP302.52 million loss in 2020. We trimmed our operating expenses for two consecutive years as we worked together to increase efficiency and implement cost-saving measures. In 2021, we cut our operating expenses by 12.0% to PhP5.96 billion from PhP6.78 billion last year.

We also narrowed our net loss to PhP318.10 million, an improvement of 29.2% from the PhP449.59 million net loss in 2020. Meanwhile, we recorded PhP31.21 billion net sales for the year, which is almost at the same level in 2020. Blended same-store sales declined in 2021 by 5.2%, albeit at a slower pace than the prior year.

Our Company managed to maintain a positive EBITDA in 2021 at PhP1.22 billion, while our cash reserves amounting to PhP1.67 billion remained sufficient to cover our current debt. To enhance shareholder value and to establish an Executive Stock Option Plan, our Company's Board of Directors approved the implementation of a share buyback program of up to PhP300.00 million.

We are also optimistic about our e-commerce business, which more than doubled in 2021 as we have seen fivefold growth of MRSGI's own online platform, shopmetro.ph.

Our financial results reflect gradual yet consistent recovery primarily due to cost reduction and optimization initiatives. This affirms the effectiveness of the management and control systems we have set in place and the tenacity of our teams who champion them.

**Harnessing growth channels**

As the market opens up and rebuilds a new normal underpinned by digital transformation, we are confident that brick-and-mortar formats will continue to be the breadwinner for the Philippine retail sector. The physical experience of shopping, touching merchandise, and interacting with store assistants is still irreplaceable for most Filipino shoppers. Hence, our approach is creating and designing customer-centric retail spaces that foster an immersive shopping experience.

Our customers in the countryside are already benefiting from this as we are able to present them with the right assortment of products at the appropriate price range for their demographic, and come up with promotions that resonate with their needs. This approach can be best sampled by visiting the refurbished flagship store Metro Ayala Center Cebu and new outlets – Metro Danao Supermarket and Department Store, Metro Tacloban Department Store, and Metro Sum-ag Supermarket.

We plan to open more stores in the coming years as we look to grow our footprint and bring our service to more customers, especially in underserved areas of the countryside. We are also in the process of developing smaller-sized store formats to penetrate the residential markets. These neighborhood stores are being planned in highly urbanized areas with the intention of bringing the MRSGI's brand of service even closer to our customers.

In both new and existing stores, we will continue to implement operational efficiencies to ultimately boost our bottom line. Store rationalization will be a key focus projecting that we can further maximize space productivity and strategically reduce selling areas to lessen expense while enhancing efficiency. We have already implemented this in Metro Lucena, Metro Legazpi, and Metro Mandaue, wherein the selling areas of the department stores have been reduced, freeing up space that will be converted into leasable areas.

Parallel to this, the selling areas of the department stores in Metro Ayala Pasig and Metro Bacolod have also been reduced for return to the lessors.

Given the current inclination of customers to shop online and the growth we experienced in this line of business, we will continue to pursue the opportunities inherent in our e-commerce initiatives. Following the implementation of the "one-basket" feature that lets shoppers select products across the supermarket and department store categories using only one cart, we are now looking at an enhancement that will allow our customers to shop anywhere they may be. We are migrating the online shopping site to a mobile app version that will give users the same shopping experience which they can do on-the-go, anywhere, from any device.

Increasing the efficiency and cost-effectiveness of our operations is also attendant to our ability to lower our carbon emissions. For this reason, we are ramping up our drive for greater use of renewable energy sources. The installation of solar panels is among the ongoing projects in this area. Some of our stores are already equipped with solar panels and are realizing up to 20% savings in energy consumption costs.

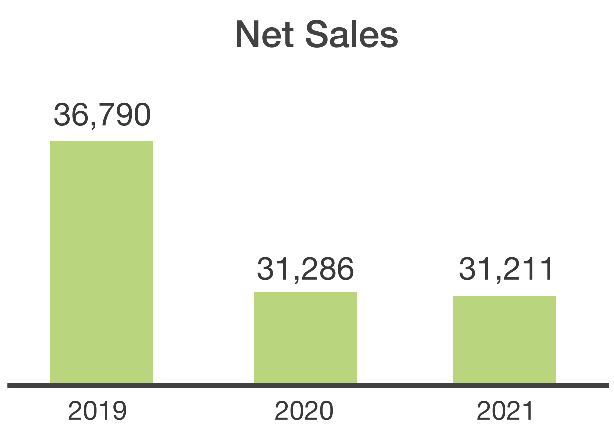
To further reduce energy consumption costs, MRSGI is also investing in high-efficiency equipment for pumps and air conditioning, and constantly encourages employees to contribute to energy and resource conservation in store operations.

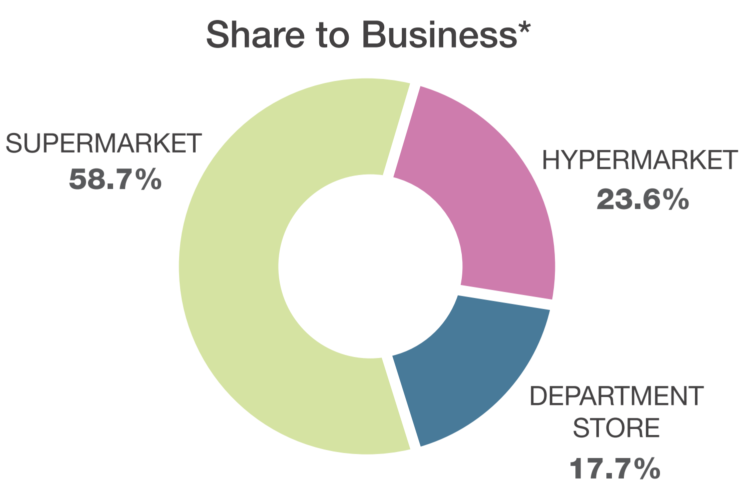
As a responsible organization, we are keenly aware of the importance of minimizing our impact on the natural environment. Moving forward, this will become a steadfast pillar of our corporate social responsibility initiatives, among our other pillars that touch on education, livelihood, and many other community engagements.

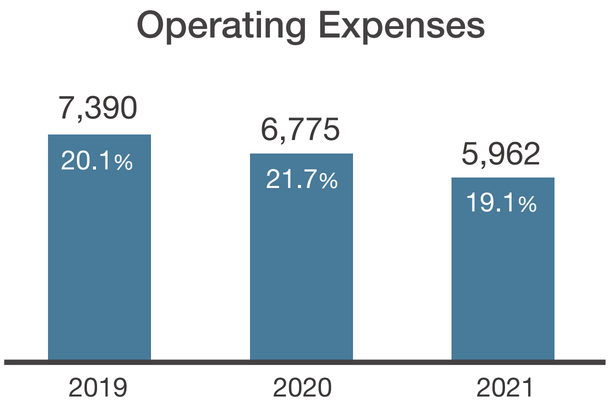
We look ahead with confidence in 2022, knowing that our plans and prospects will put MRSGI in an even stronger position for recovery and growth. Giving greater value to our stakeholders has always been our noble purpose, and we remain fortunate to have your trust and support in our ability to deliver on our strategic ambitions. My gratitude goes as well to our teams across our growing network, for the dedication and commitment they have shown in addressing unprecedented challenges, keeping our operations running, and maintaining customer satisfaction.

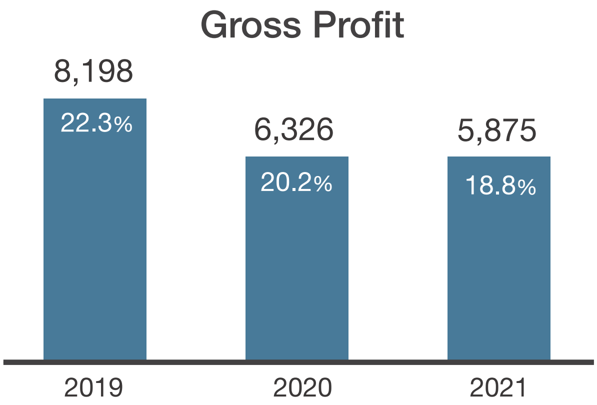
***Manuel C. Alberto***
***President and Chief Operating Officer***

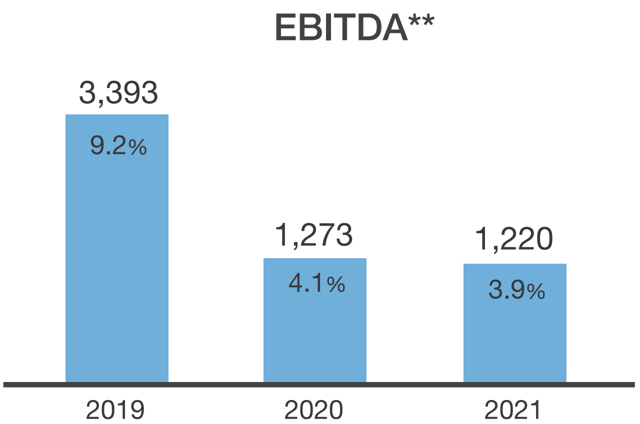
# FINANCIAL AND OPERATIONAL HIGHLIGHTS

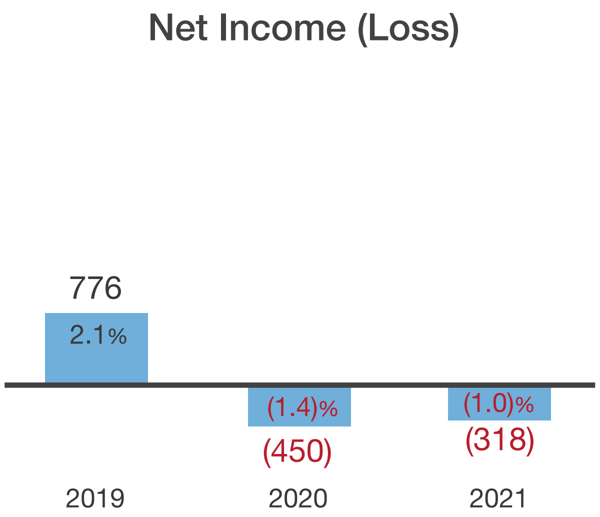



Notes: Figures are in PhP million and percent to net sales
* Figures are in percent to net sales
** Earnings before interest, tax, depreciation, and amortization

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

(In million pesos, unless indicated)

| Income Statement | 2021 | 2020 | 2019 |
|---|---|---|---|
| Net Sales | **31,211** | 31,286 | 36,790 |
| Gross Profit | **5,875** | 6,326 | 8,198 |
| EBITDA | **1,220** | 1,273 | 3,393 |
| Net Income (Loss) | **(318)** | (450) | 776 |

| Balance Sheet | 2021 | 2020 | 2019 |
|---|---|---|---|
| Total Assets | **19,436** | 21,374 | 23,365 |
| Total Liabilities | **11,263** | 12,838 | 14,129 |
| Stockholders' Equity | **8,173** | 8,536 | 9,236 |

| Financial Ratios | 2021 | 2020 | 2019 |
|---|---|---|---|
| Current Ratio | **1.71** | 1.45 | 1.47 |
| Debt to Equity Ratio | **0.18** | 0.18 | - |
| Net Debt to Equity Ratio | **(0.02)** | (0.09) | (0.31) |
| Asset to Equity Ratio | **2.38** | 2.50 | 2.53 |
| Return on Assets | **(1.56)%** | (2.01)% | 4.17% |
| Return on Equity | **(3.81)%** | (5.06)% | 8.65% |

# A YEAR IN REVIEW: 2021 HIGHLIGHTS

Amid the challenges faced by the Company through 2021, MRSGI managed to grow its brick-and-mortar network, established partnerships with online retail players and government agencies, and bagged awards for its various initiatives.

## Footprint Expansion

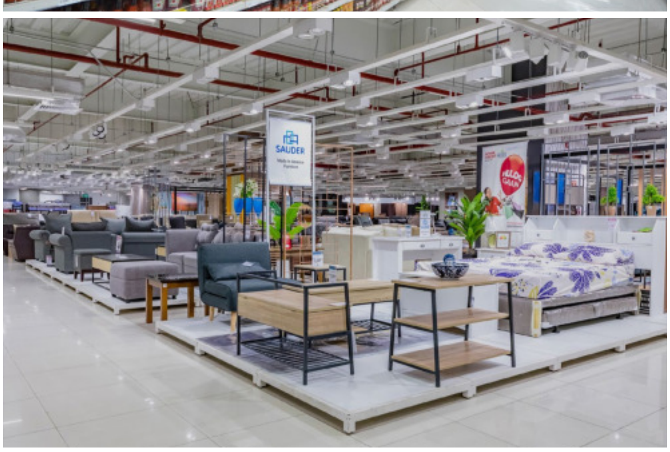
### Metro Ayala Center Cebu fully reopens with improved look and wide variety of offerings

MRSGI flagship store Metro Ayala Center Cebu held its official grand reopening on 29 January 2021, three years after it was hit by fire. Located at the Cebu Business Park in Cebu City, the seven-storey department store and supermarket boast an eco-friendly design that sports a clean and modern aesthetic. Each level is curated with an impressive selection of premium merchandise that caters to the most discerning taste and lifestyles. It offers a wide array of local and imported products coming from other Asian countries, Europe, and America. Shoppers are also treated to Metro Ayala Center Cebu's al fresco dining area on the topmost floor that features a different mix of cuisines and specialties topped with an elegantly curated interior.

The reopening of Metro Ayala Center Cebu was a testament to the unfaltering confidence on brick-and-mortar retailing, which is believed to have been greatly affected by online shopping during the quarantine restrictions related to the COVID-19 pandemic. Hence, MRSGI implemented an omnichannel strategy blending the Company's offline and online presence.

While MRSGI acknowledges the importance of an omnichannel strategy, the Company believes that the brick-and-mortar retail format continues to be its bread and butter. MRSGI remains optimistic that more Metro stores will be opened in underserved areas particularly in the countryside, focusing on its supermarkets and reimagined compact department stores.





### MRSGI launches Metro Supermarket and Department Store in Danao City

MRSGI strengthens its foothold in the Visayas with the grand opening of Metro Supermarket and Department Store in Danao City, Cebu. The compact, two-level outlet is located at Sands Gateway Mall along Central Nautical Highway in Brgy. Suba, Danao City. Metro Danao serves the residents of the city and its adjacent towns such as Compostela and Carmen. It offers a wide selection of premium products, great deals, and exciting offers, at prices generally lower than other retailers.




### MRSGI expands in Tacloban City with its Metro Department Store

MRSGI further established its presence in the Eastern Visayas region as it launched Metro Department Store in Tacloban City, Leyte. In addition to its Metro Supermarket which opened in 2020, Metro Tacloban offers a vast assortment of local and international brands – from fresh items and basic groceries to apparel and home needs, all at an affordable price range.


### Metro Supermarket Sum-Ag opens in Bacolod City

MRSGI opened Metro Supermarket Sum-Ag in the southernmost part of Bacolod City, its third Metro store in Negros Occidental. The Metro Supermarket Sum-Ag has a floor area of more than 3,000 square meters and provides an extensive line of fresh produce, frozen and pantry goods, body and home care essentials, and international products. It also features the Metro Pharmacy, a variety of food tenants, and ample parking space. Aside from serving the needs of customers, the Metro Supermarket Sum-Ag also creates over 100 new jobs for the local community.




## Forging Partnerships

### Metro Supermarket becomes available on GrabMart

In line with its omnichannel strategy, MRSGI expanded its presence in the digital space by adding GrabMart to its list of on-demand goods delivery service partners. Through the Grab app, Metro Supermarket customers in select areas of Metro Manila and Cebu can purchase their grocery needs and other essentials from an assortment of more than 5,000 products and have these delivered at their doorsteps within an hour.

METRO
RETAIL STORES GROUP, INC.

Grab
Mart

### MRSGI migrates to the cloud with Aspire Systems

MRSGI tapped Aspire Systems, a global technology services firm, for the Company's migration to the cloud to streamline various business processes and reduce operational costs. As part of its transition, MRSGI determined 23 tightly coupled applications covering Oracle Retail, custom applications, and third-party applications that had to be migrated to AWS along with the modules of Oracle Finance applications.

### MRSGI joins DTI and DA for the *Presyong Risonable Dapat* Program – Frozen Meat Edition

The Department of Trade and Industry (DTI) and Department of Agriculture (DA), in collaboration with MRSGI, mounted the *Presyong Risonable Dapat* Program – Frozen Meat Edition (PRDP-FME) in Metro Supermarkets. Under the PRDP-FME, consumers are given access to affordable and high-quality frozen meat products amid price increases and shortage of supply of meat products brought about by the pandemic. These meat products sold between PhP200 and PhP250 per kilo and chicken products at PhP110 per kilo are available in Metro Supermarkets located in Market! Market! – Taguig, Alabang, Binondo, Pasay, and Pasig.

### MRSGI partners with DTI for Bayanihang Metro x Go Lokal! initiative in support of MSMEs

DTI and MRSGI launched the Bayanihang Metro x Go Lokal! project to give support to Filipino micro, small, and medium enterprises (MSMEs) by allocating dedicated selling areas in two of its flagship supermarkets in Metro Market! Market! – Taguig and Metro Ayala Center Cebu. This project allows MSMEs to feature their homegrown brands and products in the mainstream market and become regular suppliers of MRSGI as their retail partner. Among the featured products are pure honey wine and honey fruit wine of Dielle's Apiary and Meadery Inc., seafood cracklings of KXC Enterprises, coconut milk of Cocoplus Aquarian Development Corp., vegetable chips of Take Root Food Corner, and corioso and Tablea de Marietta of Mayette's Native Food products.


## Awards and Citations

### MRSGI stores receive Gold Bagwis Seal of Excellence for Consumers conferred by DTI

MRSGI continuously demonstrates its commitment to customer excellence as the Department of Trade and Industry (DTI) awarded the Gold Bagwis of Excellence to two Metro Retail stores in Visayas namely Metro Ayala Center Cebu and Metro Colon. Both stores received certifications for Supermarket, Department Store, and Appliance Center categories. Metro Market! Market! in Taguig City likewise garnered the Gold Bagwis of Excellence from DTI. The award is the highest category recognizing establishments that comply with fair trade laws, establish efficiency in customer relations and operational management, demonstrate excellence in social commitment and responsibility, and adhere to quality management standards.

### Metro Supermarkets renew global certifications for GMP and HACCP

MRSGI upholds its certifications for Good Manufacturing Practices (GMP) and Hazard Analysis and Critical Control Points (HACCP) from the Societe Generale de Surveillance Philippines and British Standards Institution Group Philippines, Inc. This recognition illustrates the Company's strict compliance with globally recognized food safety and sanitation practices. Metro Supermarket branches that received GMP and HACCP recertifications include Metro Alabang and Metro Market! Market! Taguig in Metro Manila, and Metro Ayala Center Cebu and Metro Mandaue in the Visayas.

### MRSGI attains 100% compliance with DTI Safety Seal

All of 61 branches of MRSGI secured compliance with DTI's Safety Seal, which attests to the Company's in-store enforcement of health standards set by the government – implementing physical distancing, using staysafe.ph and other contract tracing tools, and providing ample sanitizing stations as well as regularly disinfecting premises. This certification is a prominent reassurance to our customers as well as to our store frontliners of MRSGI's thrust of prioritizing their health and safety.


### Virtual Metro Community Bazaar earns Merit Award in the 18th Philippine Quill Awards

The 18th Philippine Quill Awards conferred a Merit Award upon Virtual Metro Community Bazaar (VMCB), the online collective shop-for-a-cause project of MRSGI launched in July 2020. This recognizes the notable initiative of MRSGI and its partner Vicsal Foundation, Inc. for the welfare of small businesses and their communities. VMCB featured food selections and sustainable lifestyle merchandise from select social enterprise brands, along with skills and entrepreneurship training conducted by MRSGI's CSR partners.

# CORPORATE SOCIAL RESPONSIBILITY

A core driver of the Metro Retail Stores Group, Inc. (MRSGI) corporate strategy is the genuine and active interest in the well-being of its immediate communities. The Company works towards uplifting lives through increased opportunities in education and livelihood, as well as environmental efforts and emergency aid. By embracing civic and social responsibility in these ways, MRSGI establishes and maintains mutually beneficial relationships with numerous communities across the nation.

MRSGI's corporate social responsibility (CSR) programs are anchored by these objectives:

- To solidify MRSGI's presence among its direct communities through programs that uplift the living standards of its beneficiaries
- To establish goodwill and develop good relations with communities where Metro stores operate
- To expand MRSGI's CSR platform for greater impact on the local communities
- To enhance employee morale by helping them make a positive contribution to society

Implemented by the Office of Corporate Affairs, the CSR 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 CSR PILLAR — TALINONG METRO


### VICSAL Foundation, Inc. Scholarship Program

- MRSGI continues to support the scholarship program of Vicsal Foundation which has awarded a total of 284 scholarship grants with 70 scholars for S.Y. 2020-2021.

### Metro Segunda Mana - YSLEP Scholarship Program

- Through the Metro Segunda Mana in-kind donations, MRSGI supported a total of 87 scholars with 11 scholars for S.Y. 2020-2021. A total of 27 scholars have graduated in S.Y. 2021.

### MRSGI World Vision Sponsor A Child Program

- MRGSI participated in the fundraising program of World Vision Philippines which is geared towards providing educational assistance to children and their communities.


## Metro Caritas Margins

- The proceeds from the retail of Caritas Margins products in Metro Supermarkets continued to support the livelihood of SMEs and the Metro-YSLEP Scholarship Program.


## Metro GreenEarth Heritage Foundation, Inc. Livelihood Program

- The proceeds from the retail of moringa tea and powder in Metro Supermarkets continued to provide support to the GreenEarth communities and farmers' families.


## Metro Community Bazaar

- MRSGI hosted its award-winning virtual community bazaar in partnership with the MRSGI E-commerce team. The Metro Stores Online Store served as the venue for shoppers to buy products or donate directly to the advocacies of MRSGI's participating CSR partners.


## Buy Local, Go Lokal Campaign: A MRSGI - DTI Partnership

- MRSGI continued its support for the Department of Trade and Industry's national media campaign of promoting the consumption and purchase of Philippine fresh produce and manufactured goods.


## Metro Kiboa Ridge Farms

- The proceeds from the retail of Kiboa adlai rice in Metro Supermarkets continued to benefit farming communities in Bukidnon.


## Daghang Salamat Stories

- MRSGI launched a new chapter in the Daghang Salamat Series featuring CSR partners and their communities with the theme “One Metro: Empowering Communities Together."


## Bida Solusyon Plus Campaign: A MRSGI - DOH Partnership

- MSRGI continued its support for the Department of Health's information dissemination drive to fight the spread of COVID-19 via the Bida Solusyon Plus Campaign.


## Paghiusa Visayas Donation Drive

- In partnership with Vicsal Foundation and Caritas Manila, MRSGI launched a donation drive for in-kind and cash donations to help the communities in Cebu and larger Visayas areas that were affected by Typhoon Odette.


## Metro Caritas Manila Damayan GC Ayuda

- Metro Gift Certificates were donated to the Caritas Manila Damayan GC Ayuda 2021. Hand sanitizers and alcohol were also donated from the Metro Rewards Card Points Donation Drive of MRSGI and Vicsal Foundation, Inc.

## Metro Gift Giving

- MRSGI donated food packs to the feeding program of St. Arnold Janssen Kalinga Center.


## Facemask Donations to Luzon Beneficiaries

- Face masks were distributed to hospitals and non-government organizations in Luzon.


**Paghiusa Visayas Relief Distribution for communities affected by Typhoon Odette**

- Relief goods were distributed and donated to Caritas Manila, Inc. and Carcar City and Naga City areas in Cebu.


**Bayanihang Metro x Go Lokal! A MRSGI - DTI Partnership**

- MRSGI partnered with the Department of Trade and Industry to support Micro, Small, and Medium Enterprises (MSMEs) by providing store spaces for the retail of products within Metro Supermarkets.

# CORPORATE GOVERNANCE

The MRSGI Board of Directors and Management remain committed to good corporate governance (CG) practices. As in the previous years, the Company's operations and decision-making were guided by its CG policy framework that covers the following:

- CG formalities;
- Rights and equitable treatment of shareholders;
- Stakeholder relations;
- Disclosure and transparency;
- Control environment and processes; and
- Board of Directors structure and effectiveness.

The Company continues to endeavor in further strengthening its CG framework and aligning this with applicable international practices. Significant efforts were made not only to comply with the mandates of the Philippine Stock Exchange (PSE) and Securities and Exchange Commission (SEC) but also to adopt best practices that fill in the gaps whether in practice or policies.

## Corporate Governance Formalities

On May 5, 2017, the MRSGI Board approved and adopted the Amended Manual on Corporate Governance. The revised version has since guided the Company's CG-related activities throughout the year and served as the overarching policy framework that guided all initiatives, decisions, and actions that had CG implications.

In addition to the Manual, MRSGI has in place the following CG-related policies and processes which likewise governed the actions of the Management and the Board in 2021:

- Independent Director selection process;
- Board of Directors performance evaluation system;
- Audit and Risk Committee charter;
- Investment Committee charter;
- Governance Committee charter;
- Nomination and Remuneration Committee charter;
- Guidelines on matters requiring Board of Directors, Shareholders, and Management approval;
- Whistleblower policy;
- Related-party transaction policy; and
- Code of Conduct for Directors and Senior Management.

The Company, through its Chief Strategy and Governance Officer – Jonathan Juan D.C. Moreno[1] , actively participated in various corporate governance-related fora organized by the SEC, PSE, Management Association of the Philippines (MAP), Shareholders Association of the Philippines (SharePHIL), and the Institute of Corporate Directors (ICD). He participated both as a delegate and speaker and provided valuable insights to the discussions, primarily representing the perspective of publicly listed and family-controlled companies.

## Rights and Equitable Treatment of Shareholders

The Board of Directors remained committed to its duty of promoting shareholder rights. Though there were no known impediments to the exercise of shareholders' rights in 2021, the Board nevertheless ensured that an adequate venue for them to seek timely redress for violation of their rights existed. The Company's Investor Relations Department (IRD), the Office of Chief Strategy and Governance Officer (CSGO), the Office of the Chief Finance Officer (CFO), and the Legal Office actively engaged with the investing public and the regulators to make sure that shareholder matters and concerns were properly addressed.

Recognizing that all stockholders should be treated equally and without discrimination, MRSGI provides 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. In 2021, no such requests or proposals were formally received by the Company.

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[1] Served as the Company's Chief Strategy and Governance Officer until December 31, 2021

### Annual Stockholders' Meeting

Committed to transparency and fairness in the conduct of Annual and Special Stockholders' Meetings, the MRSGI Board through its Management, was encouraged to attend to such affairs. Due to stringent quarantine restrictions related to COVID-19, the Company held its Annual Shareholders' Meeting virtually on May 07, 2021 via Zoom Video Conferencing. Notice of the Annual Stockholders' Meeting was disclosed in the Company's website and was published in the business sections of two newspapers in general circulation (both print and online formats).

### Related-party Transaction

The Audit and Risk Committee (ARC), which is primarily composed of independent directors, reviewed all related party transactions in 2021 and ensured that such transactions were done at arm's length. These transactions were likewise reviewed by the External Auditor and included in the financial statements to provide assurance as to the accuracy of the reported information.

The Company's policy on related party transactions provides the overall guidance and framework for all such transactions in 2021 and no violations of the policy were recorded or observed, thereby indicating that the mechanisms set in place to ensure that the interests of non-controlling shareholders are protected and are working.

### Investor Relations

The Company remains committed to engage with its shareholders primarily through the Investor Relations Department. The Department ensured that relations with investors, and the investing public are maintained and nurtured. The Investor Relations Department ensures that relevant developments and information are conveyed clearly and at a timely manner to the Company's stakeholders and the general public. MRSGI regularly engages with the investing community through individual meetings, conference calls, store visits, as well as other channels such as: Regulatory Disclosures, Quarterly Analyst Briefings, Company Website, Media Releases, Electronic Communications, among others.

### Stakeholder Relations

The Board of Directors and Management remained steadfast in its belief that responsible business practices require that the Company's stakeholders be productively engaged and treated in a fair and just manner. In 2021, the Company worked closely with the following stakeholder groups through carefully developed and executed engagement programs:

#### *Suppliers and Contractors*

Through constant dialogues and joint planning sessions with suppliers and contractors, the Company continued with its program of improving the supplier's overall selling and payment experience, which consequently improved the general business relationship and performance of the counterparties.

#### *Customers*

Through various customer service programs such as mystery shopping, one-on-one and focus group discussions, customer satisfaction surveys, and technology-enabled customer analytics, MRSGI continuously improved its customer-oriented systems and processes to provide a pleasant and memorable customer experience that would make them return to our stores. These initiatives have resulted in having the freshest and widest assortment of products available on the shelves, faster checkouts, clean and comfortable stores, and other attributes that make the Company's customers continue to patronize our stores.

#### *Employees*

The Company's Human Resources (HR) Capability Development section continued to capitalize on virtual learning platforms amidst the Global COVID-19 Pandemic. Trainings and learning sessions were focused on employee well-being and vaccine information.

In partnership with the Department of Health (DOH) Region VII, a COVID-19 Vaccination Education campaign was conducted. Among the topics discussed via webinar were the Benefits of COVID-19 Vaccination, Delta Variant and Vaccines, and others. Testimonials from vaccinated employees as well as articles from the U.S. Center for Disease Control (CDC) and the World Health Organization (WHO) were also cascaded to employees to support the vaccination information campaign.

While the focus shifted to health educational learning programs, the needed regulatory or compliance-related training (e.g. BOSH, PCO, HACCP) was also provided to equip our employees. The foundational competencies on customer service, good hygiene practices, safety and security basics, as well as other continuing technical/functional training programs for stores, warehouses, and corporate operations were also in place to ensure continuity of learning in a new normal.

In partnership with Mind You Mental Health Systems Inc., MRSGI provided Wellness Webinars to achieve the following objectives:

- Raise the confidence level of our employees towards getting COVID-19 Vaccine by helping them understand and manage their anxiety and provide coping mechanisms; and help employees understand how thoughts influence their emotions, be aware of their unhelpful thoughts, and learn the skills necessary to reframe their thoughts;
- Comply with the RA 11036 or the Mental Health Law and related Department of Labor and Employment (DOLE) guidelines on the effective implementation of employee wellness programs within the workplace. MRSGI continues to work on these and instituted programs that aim to raise awareness on mental health issues, remove stigmas and discrimination related to mental health conditions, and provide support and facilitate access to mental health services that would foster a positive working environment.

The three (3) topics of the wellness webinar talk series conducted in June, July, and August 2021 were 1) Adjusting to the New Normal; 2) Unseen Impacts: Exploring and Understanding the Relationship between Mind and Body; and 3) New Mindset, New Result. These topics supported the overall employee well-being thereby helping them cope with the current crisis, empowering them to take control of their mental health, and encouraging them to live more fulfilled lives.

**Performance Management**

MRSGI officially launched the Agile Performance Management System (APMS) in 2021. The APMS enables alignment of the deliverable of individual employees to MRSGI overall strategy; equips employees to perform to their full potential by having frequent, meaningful performance review and coaching conversations; and recognizes their contributions.

To ensure a smooth transition towards the APMS approach, an organization-wide APMS training was conducted covering topics on the process, tools, performance evaluation cycle, and documentation.

**Employee Engagement**

MRSGI continued to provide its employees with inspiring and memorable activities where they could feel a culture of family and a sense of belongingness. With the pandemic, virtual gatherings were sustained to strengthen connections despite the distance.

In 2021, the programs completed via virtual platforms were: (i) Founder's Day Celebration with the Kwentong Metro Year 2 writing contest about employees' stories of resiliency, gratitude, and compassion. The Tiktok Group Dance Challenge – Metro edition also invigorated the occasion for employees to get connected, feel alive, and groove to the trend; (ii) Christmas Celebration through Thanksgiving Mass and Caroling Contest with the theme of Hope, Prosperity, and Family; and (iii) Annual Loyalty Awarding Ceremony recognizing employees who stayed in MRSGI for at least five (5) years and have remained significant contributors to the Company's growth. There were 437 total awardees for the year.

### Health, Wellness, and Employee Welfare

- **Alignment and Compliance with the Government's Alert Level System and COVID Safety Mandates**
  MRSGI aligned its Safety Strategy and Policy with the government's response to the global COVID-19 pandemic. The Company's COVID-19 Task Force Committee, headed by General Loss Prevention Department and HR, regularly reviews, updates, and cascades the Company' Safety Policy to all its employees. It adapted work arrangements in response to the Alert Level System, which are applicable to stores, warehouses, and corporate offices. MRSGI built its own testing capacity by purchasing its own Professional-grade Test Kits. The timely testing of employees aided in containing the spread of the virus and potential outbreak across the MRSGI workplace.

  MRSGI consistently held its regular Fire and Earthquake Drill for employee awareness and safety on top of its COVID-19 response initiatives.

- **Typhoon Odette Calamity Response**
  On December 16, 2021, Super Typhoon Rai (locally known as Odette) ravaged the Visayas region, bringing heavy rains, violent winds, floods, and storm surges. The typhoon damaged many of MRSGI stores while its employees were left homeless and devastated. MRSGI quickly extended calamity aid to affected employees in order to support them in their situation.

  - Total of PhP7.6 million calamity aid was given to employees both in the form of groceries and cash for 3,948 employees. The breakdown are as follows:
    1. Cebu that was greatly affected with 3,436 employees
    2. Southern Leyte with 133 employees
    3. Negros Region with 379 employees
  - Provided additional Company Calamity Loans of PhP5,000 per employee
  - Allowed the use of Credit Fund Voucher with maximum amount of PhP2,500 per employee to purchase in the stores
  - Employee's Payroll deductions were moved to latter dates to give employees a grace period to recover from their financial struggles during the typhoon
  - Prioritized employee safety by enabling our employees in the Cebu Principal Office to work from home.

- **Employee Assistance during Lockdowns and Stricter Quarantines**
  As "Metro Cares" not only for its customers but also for its employees, MRSGI provided necessary support to its frontliners in the midst of stringent quarantine restrictions in different locations.

  - Shuttle services - MRSGI employees were provided with shuttle services from specified pick-up points to stores and corporate offices and vice versa.
  - Temporary billeting - Management was able to secure temporary shelters for MRSGI frontliners in locations under strict community quarantine status.
  - Meal allowance and distribution of vitamins - MRSGI ensured that each of its frontliners was given daily meal allowances and vitamins to protect their health and boost their immune system.
  - In-house credit card - Employees with existing Metro Privilege Card (MPC) and current balances were able to purchase goods beyond their credit limit. Payment for the said card was also put on hold to assist the employees with their finances.

### Labor Compliance

- MRSGI remained compliant with DOLE policies on anti-sexual harassment, drug-free workplace, tuberculosis, and Hepatitis B prevention, and with DOLE Order No. 178 on Safety and Health Measures for Workers who by the Nature of their Work have to Stand at Work by allowing the use of more practical and comfortable footwear, arranging more break periods, and providing a common rest area.

- MRSGI implemented Telecommuting and Flexible Work Arrangement for its corporate employees.

- Employee Assistance Program for Retrenched Employees
  MRSGI crafted an Employee Assistance Program for the employees still affected by its Workforce Rightsizing and Rationalization Program. Aside from the legally mandated retrenchment pay, each displaced employee received the following assistance:

- Family Assistance – a gift check worth PhP9,000 which they can use for any purchases at the Metro Stores
- Health Insurance Coverage – up until March 27, 2021 and is within the Maximum Benefit Limit (MBL). Any excess from the MBL is of the employee's account and he/she shall pay the hospital/clinic upon discharge.
- Skills and Livelihood Training – each displaced general staff to supervisory level employee will be given a PhP1,000 budget to enroll into any TESDA course of their choice and other skills training provider. This assistance can be availed by the employee or his/her family and relatives within the first two (2) months after the end of their employment but will be forfeited after two (2) months of non-availment. A copy of the enrolment form, schedule of classes, and school or training center contact details are pre-requisites for the assistance.

**Technology**

- The Human Resource Information System (HRIS) is in-place for efficient payroll processing, time and labor management, and employee database management. It has migrated to a newer version with improved user interface, data processing, and analytics. HR Department plans to further upgrade or replace the HRIS in order to capture full cycle HR processes such as Talent Acquisition, Talent Management, and Talent Optimization, as well as to take advantage of current technologies for dynamic reporting and analytics.

- Google Workspace (formerly G-Suite) – MRSGI, in partnership with Globe, continues to use Google Workspace as its primary workplace communication tool and more.

- Virtual Private Network (VPN) – During the work-from-home set-up, qualified employees in the Luzon and the Visayas Corporate Offices were given their VPN Accesses to access software that is restricted to local connections.

### *Community*

Through the Company's Corporate Affairs Department led by Anna Marie Periquet, MRSGI established new partnerships with government and various social enterprises to provide assistance to communities through various livelihood programs such as the Virtual Metro Community Bazaar, the Bayanihang Metro + Go Lokal, and other retailing programs. These and other CSR projects uplift the lives of communities by providing income to support the education of children and sustain the needs of the families. Details on the community-related activities of 2021 are elaborated under the Corporate Social Responsibility section of this annual report.

## Transparency and Disclosure

MRSGI remains committed to full disclosure of material information such as, but not limited to, financial results, external audit fees, and ownership structure, to the appropriate regulatory agencies as well as to the investing public. Through its Compliance Officer, Atty. Tara Tsarina B. Perez-Retuya, MRSGI diligently complied with all required information through the mechanisms established for listed companies by the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

### External Audit Fees and Services

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

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | 1,890,000.00 | 1,890,000.00 | 2,079,000.00 |
| Professional Fees related to the Initial Public Offering | - | - | - |
| Fees for tax-related services | 416,627.00 | 964,430.00 | 150,000.00 |
| All Other Fees | 147,840.00 | 123,200.00 | - |
| **Total** | **PhP2,454,467.00** | **PhP2,977,630.00** | **PhP2,229,000.00** |

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

### Ownership Structure

Indicated below is the ownership structure of MRSGI as of December 31, 2021.

| Stockholder | Nationality | No. of Shares Subscribed and Paid-Up | % to Total Outstanding Shares |
|---|---|---|---|
| Vicsal Development Corporation | Filipino | 2,628,149,382 | 78.31 |
| Valueshop Stores, Inc. | Filipino | 24,801,489 | 0.74 |
| Frank S. Gaisano | Filipino | 2 | 0.00 |
| Edward S. Gaisano | Filipino | 75,002 | 0.00 |
| Margaret Gaisano Ang | Filipino | 2 | 0.00 |
| Jack S. Gaisano | Filipino | 2 | 0.00 |
| Manuel C. Alberto | Filipino | 1 | 0.00 |
| Guillermo L. Parayno, Jr. | Filipino | 1 | 0.00 |
| Ricardo Nicanor N. Jacinto | Filipino | 500,001 | 0.01 |
| Others | Various | 702,470,118 | 20.94 |
| Treasury Shares | Filipino | 73,379,000 | |
| **Total** | | **3,429,375,000** | **100.00** |

## Control Environment and Processes

In 2021, the Board of Directors together with MRSGI Management continued to strengthen its internal control and audit system through the implementation of policies that ensure efficiency of operations, reliability of financial reporting, safeguarding assets, and compliance with laws and regulations.

Through the active leadership of the ARC, the Company focused on risk management, safety management, internal audit, control, and compliance. The objective was to manage or minimize risks that deter the Company's growth.

### Risk Management

Through the active leadership of the ARC, the Company focused on risk management, safety management, internal audit, control, and compliance. The objective was to manage or minimize risks that deter the Company's growth.The ARC worked closely with MRSGI Management to identify, assess, and manage all business risks to maintain a sound risk management system that allows for a comprehensive and organized approach in risk mitigation. This provides the Company the ability to respond to relevant and material risks as they rise and develop.

As a result of this close coordination, all store locations and warehouses, and majority of 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 Head Mariven Bacalso Jayme. 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 noted and included in the risk register of 2021 for proper management and monitoring at store level.

### Safety Management

The year 2021 showed the relentless impact of the COVID-19 pandemic both on the economy and healthcare system at a global scale and safety remained at the forefront of everyone’s concern.

The Company’s Safety Management Team (SMT) focused on the implementation, enforcement, and monitoring of best practices on COVID-19 safety protocols to prevent the spread of the virus in the workplace. This is for the protection of both employees and our valued customers. The SMT together with Store Operations, Warehouse Operations, and Corporate Operations were on high alert and consistently implemented the daily disinfection of the workplace and the screening of employees and customers to detect suspected infected individuals. The immediate contact tracing and enforcement of voluntary granular lockdown within the workplace in order to conduct extensive disinfection of the work area has proven to be effective in controlling the spread of the virus. With effective COVID-19 case management, the Company was able to curb the spread of the virus in the workplace and consequently its impact on business operations were mitigated in MRSGI’s commitment to its stakeholders as part of the Company’s business continuity program.

The SMT consistently complied on all regulatory compliance on Occupational Safety and Health (OSH) Program requirements from DOLE as well as the regulatory requirements on Fire Safety as required by Bureau of Fire Protection (BFP).

Despite the difficulties of in-person trainings, the Company's Safety Officers were able to maximize the use of digital technology in the conduct of their learning session and maintain the level of competency of the emergency response team (ERT) leaders and members.

MRSGI also tapped external resources such as the BFP training officers to facilitate online Fire Safety webinars for the ERT leaders and members. The alertness and dedication of the Company's ERT leaders and members have translated to a more effective response management on any incident that have occurred in the workplace, either in stores, warehouses, or offices. Minor fire incidents that have occurred and were immediately extinguished by the ERT responders were still below the enterprise-wide three-year baseline records. Furthermore, the root causes of these fire incidents were also addressed to prevent its recurrence.

The SMT actively collaborated with HR in the promotion and information campaign of the COVID-19 vaccination drive for employees. As a result, MRSGI attained 98% vaccination rate, above the 70% herd immunity threshold set by the DOH.

The Company's Safety Officers played a significant role in achieving the goal of securing the Safety Seal from the Department of Trade and Industry (DTI) and local government units. DTI's Safety Seal are prominently displayed across all MRSGI stores which is a testament of the dedication of the whole organization in placing the importance of safety of all MRSGI stakeholders.

When Typhoon Odette hit most of the Visayas islands, several MRSGI stores, warehouses, and corporate office were adversely affected. In spite of the challenges, the SMT consistently collaborated with the Company's Crisis Management Team in mitigating the impact of the disaster while working on business recovery and restoration mindful that MRSGI addresses the essential needs of the affected communities.

### Internal Audit

The Internal Audit Group (IAG) at MRSGI operates on a risk-based approach that primarily focuses on risk-involved activities and ensures that these risks are being managed within controllable levels. The IAG was created to assist Management in the oversight of store operation, internal control system, and compliance with laws and regulation. IAG helps MRSGI accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and compliance processes.

To ensure its independence and integrity, the IAG reports functionally to the ARC and administratively to the Chairman and CEO.

Internal Audit Group performs regular audit engagements on the following areas:

- Store Operations
- Supply Chain Management
- Network Expansion
- Merchandising and Marketing
- Corporate Audit (e.g., Human Resource, Treasury and Finance, Leasing)

### Internal Control

The Company's Standard Operating Procedures (SOPs) remained the core of its Internal Control System. Several of these SOPs were developed, updated, and/or incorporated in MRSGI's existing policies and operating manual through the leadership of the Systems and Procedures Group. These operating standards have, likewise, became the basis of the Internal Audit Group in reviewing compliance to company policies and procedures.

Management is confident that the policies, procedures, and activities are within a controlled framework due to the effort of the Internal Audit Group and the Company SOPs.

### Compliance Officer

To ensure adherence to corporate policies as well as external regulatory requirements, MRSGI's Compliance Officer, Atty. Tara Tsarina B. Perez-Retuya, ensured that the Company remained compliant with all relevant laws, rules, and mandates of regulatory agencies and MRSGI's Amended Manual on Corporate Governance. The Compliance Officer 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. Perez-Retuya ensured that the Board of Directors and senior officers of the Company are compliant with its Corporate Governance-related policies namely: Amended Manual on Corporate Governance, the Guidelines on matters requiring Board of Directors, Shareholders, and Management Approval, Whistle-blowing Policy, Amended Policy on Related-Party Transactions, and Code of Conduct for Directors and Senior Management.

## Board Structure and Effectiveness

Being primarily responsible for the governance and for fostering its long-term success of the Company, the Board conducted itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. Specifically, it ensured that Management's actions were in line with the strategic direction that it had set in its strategic roadmap.

To further improve its overall function and effectiveness, the MRSGI Board and select executives, attended the Advanced Corporate Governance Training conducted by the Institute of Corporate Directors on January 22, 2021.

The in-house training program covered topics such as the following:

- Risk Management in the Age of COVID-19
- Leading in Crisis: From Survival to Strategic Pivot

These training sessions were attended by the following MRSGI directors and executives:

| Name | Position |
|---|---|
| Frank S. Gaisano | Chairman and Chief Executive Officer |
| Edward S. Gaisano | Non-executive Director |
| Margaret Gaisano Ang | Non-executive Director |
| Jack S. Gaisano | Non-executive Director |
| Guillermo L. Parayno, Jr. | Independent Director |
| Ricardo Nicanor N. Jacinto | Independent Director |
| Manuel C. Alberto | Executive Director, President and Chief Operating Officer |
| Joselito G. Orense | Treasurer and Chief Finance Officer |
| Atty. Vincent E. Tomaneng | Corporate Secretary and Chief Legal Officer |
| Jonathan Juan D.C. Moreno | Chief Strategy and Governance Officer |
| Atty. Tara Tsarina B. Perez-Retuya | Assistant Corporate Secretary and Compliance Officer |

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

| Director's Name | Type* | If Nominee, Identify the Principal | Nominator in the Last Election** | Date First Elected | Date Last Elected*** | Elected When (Annual/ Special Meeting) | No. of Years Served as Director |
|---|---|---|---|---|---|---|---|
| Frank S. Gaisano | ED | | Visccal Dev't Corp. (VDC) | Aug. 28, 2003 | May 7, 2021 | Annual | 17 |
| Edward S. Gaisano | NED | | VDC | Aug. 28, 2003 | May 7, 2021 | Annual | 17 |
| Margaret Gaisano Ang | NED | | VDC | Aug. 28, 2003 | May 7, 2021 | Annual | 17 |
| Jack S. Gaisano | NED | | VDC | Aug. 28, 2003 | May 7, 2021 | Annual | 17 |
| Manuel C. Alberto | ED | VDC | VDC | Dec. 17, 2018 | May 7, 2021 | Annual | 2 |
| Guillermo L. Parayno, Jr. | ID | No relation | N/A | Jul. 16, 2015 | May 7, 2021 | Annual | 5 |
| Ricardo Nicanor N. Jacinto | ID | No relation | N/A | Jul. 27, 2015 | May 7, 2021 | Annual | 5 |

* Executive Director (ED), Non-Executive Director (NED), or Independent Director (ID)
** If ID, state the relationship with the nominator
*** If ID, state the number of years served as ID

## Board Committees

MRSGI 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, which directly aids 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 as follows:

### Audit and Risk Committee

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

In 2021, the discussion and resolutions in the ARC meetings included topics on risk management amidst the global COVID-19 pandemic, strengthening MRSGI's internal control structure and system, and related-party transactions. Specifically, the ARC covered findings in audit engagements on institutional sales, marketing, non-trade procurement, merchandising, and supply chain operations, among others.

The ARC is composed of the following directors:

- Guillermo L. Parayno, Jr. – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

### Nomination and Compensation Committee

The Nomination and Compensation Committee (NCC) assists the Board of Directors in reviewing and evaluating the qualifications of all individuals nominated to the Board 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 NCC has established a formal and transparent procedure for developing a policy on remuneration.

In 2021, the discussions and resolutions in the NCC meetings included topics on top team development, the MRSGI retirement plan and stock option plan, compensation and benefits program design implementation, and strategic HR programs.

The NCC is composed of the following directors:

- Frank S. Gaisano – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

### Corporate Governance Committee

The Corporate Governance Committee (CGC) 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 evaluation of Board performance.

In 2021, the CGC discussions covered, among others, topics on board functioning and effectiveness through corporate trainings, and Board-Management engagement.

The CGC is composed of the following directors:

- Edward S. Gaisano – Chairman
- Margaret Gaisano Ang – Member
- Guillermo L. Parayno, Jr. – Member
- Manuel C. Alberto – Member
- Ricardo Nicanor N. Jacinto – Member

### Investment Committee (IC)

The Investment Committee (IC) 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.

In 2021, the discussions and resolutions in the IC meetings included topics on site selection, potential mergers and acquisitions projects, store formats and budgets, and strategic partnership opportunities.

The IC is composed of the following directors:
- Margaret Gaisano Ang – Chairman
- Jack S. Gaisano – Member
- Frank S. Gaisano – Member
- Ricardo Nicanor N. Jacinto – Member
- Guillermo L. Parayno, Jr. – Member

## Board Meeting and Attendance

The Board of Directors meets once every two (2) months. 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 the year 2021, MRSGI conducted meetings as illustrated below:

| Position | Name | No. of Meetings Held During the Year | No. of Meetings Attended | Attendance Rate |
|---|---|---|---|---|
| Chairman | Frank S. Gaisano | 5 | 5 | 100% |
| Member | Edward S. Gaisano | 5 | 5 | 100% |
| Member | Jack S. Gaisano | 5 | 5 | 100% |
| Member | Margaret Gaisano Ang | 5 | 5 | 100% |
| Member | Manuel C. Alberto | 5 | 5 | 100% |
| Independent | Guillermo L. Parayno, Jr. | 5 | 5 | 100% |
| Independent | Ricardo Nicanor N. Jacinto | 5 | 5 | 100% |

## Board Remuneration

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

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

| | Fixed Remuneration | Per Diem Allowance per BOD Meeting | Per Diem Allowance per Committee Meeting |
|---|---|---|---|
| **Executive Directors** | Fixed monthly compensation | Nominal per diem of PhP10,000.00 (net of tax) | Nominal per diem of PhP10,000.00 (net of tax) |
| **Non-Executive Directors** | None | Nominal per diem of PhP10,000.00 (net of tax) | Nominal per diem of PhP10,000.00 (net of tax) |
| **Independent Directors** | None | PhP150,000.00 (gross of tax) | Chairman: PhP45,000.00 (gross of tax)<br>Member: PhP40,000.00 (gross of tax) |

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

**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.

*Additional information about the Company's corporate governance practices and initiatives are available at www.metroretail.com.ph.*

# EXECUTIVE PROFILE

**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 Pacific Mall Corporation and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property Venture Development Corporation, AB Capital and Investment, 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 the Strategic Retail Management Course at Harvard Business School, as well as several courses at the Institute of Corporate Directors.

**MANUEL C. ALBERTO**
*President and Chief Operating Officer*

Manuel C. Alberto is the President and Chief Operating Officer of the Metro Retail Stores Group, Inc. Before his appointment, he served as the Company's Chief Merchandising and Marketing Officer. A seasoned retail executive, Alberto's career spans more than two decades, most of which he spent handling key leadership positions in top companies that included Philippine Familymart Inc., Rustan's Supercenter Inc., Avon Cosmetics Inc., and Jollibee Foods Corporation, to name a few.

Over the years, Alberto has built expertise in retail strategy, store operations, franchise development and relations, merchandising, food safety, supply chain, organizational and systems development, and loss prevention. He is recognized as a strategic and results-oriented leader with a consistent track record of achieving sales and profit targets, cost savings, business development, and implementation of brand strategies for start-up, turnaround, and market-leading companies. He is also adept in site selection as well as store design and development.

Alberto received his Bachelor of Arts degree in Communication from Santa Clara University in California, USA, and completed his Master's degree from Asian Institute of Management.

**EDWARD S. GAISANO**
*Director*

Edward S. Gaisano was appointed Director of MRSGI in 2003. Prior to this appointment, he served as Chairman and President of Prime Asia Pawn & Jewelry Shop Inc. and Platinum Holdings, Inc. as well as Director for Metro Value Ventures, Inc.

He is currently the Chairman and President of Vicsal Development Corporation. Concurrently, he sits as Chairman of the Board of Wealth Development Bank Corporation, Hyundai Alabang, Inc., and Hyundai Southern Mindanao, Inc.; and as President of Pacific Mall Corporation. He also holds directorship posts at Taft Property Venture Development Corporation and Trilogy Holdings Corporation.

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.

**MARGARET GAISANO ANG**
*Director*

Margaret Gaisano Ang has been a Director, Corporate Secretary, and Treasurer of MRSGI since 2003.

Concurrently, she holds directorship posts at 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.

Gaisano Ang earned her Bachelor of Science degree in Commerce, major in Accounting (Cum Laude), from the University of San Carlos and has completed several 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. He also served as Director for Vicsal Securities and Stock Brokerage, Inc. from 1989 to 2009.

He is currently the Chairman and President of Taft Property Venture Development Corporation, Midland Development Corporation, and Vsec.com Inc. He sits as President and Vice Chairman of HTLand, Inc. and holds directorship posts at Vicsal Development Corporation, Vicsal Investment, Inc., Pacific Mall Corporation, and JV.Com. Holdings Inc.

Gaisano earned his Bachelor of Science degree in Chemical Engineering from the University of San Carlos and has completed several courses at the Institute of Corporate Directors.

**RICARDO NICANOR N. JACINTO**
*Independent Director*

Ricardo Nicanor N. Jacinto is an independent director of Metro Retail Stores Group, Inc. (MRSGI). He also serves as the Vice-Chairman of SBS Philippines Corporation (a publicly-listed corporation) and director of its subsidiary, SBS Holdings and Enterprise Corporation. He is also an executive director of the Torre Lorenzo Development Corporation. His previous directorships were at the Manila Water Corporation and the Socialized Housing Finance Corporation, a government-owned and controlled corporation (GOCC).

Apart from his private sector directorships, Jacinto also serves as a Trustee of the Institute of Corporate Directors where he is also a highly-rated lecturer and facilitator for the organization's director training seminars and strategic planning workshops that cater to the needs of publicly-listed companies, privately-held family firms, and GOCCs. Jacinto is also the Treasurer and Trustee of the Judicial Reform Initiative, a not-for-profit corporation which advocates reforms in the judiciary with particular emphasis on its impact on business and the economy.

He is also a faculty member of the MBA program of the University of the Philippines Virata School of Business in Bonifacio Global City.

His work experience spans over 26 years. From 1997-2011, he worked in various capacities at Ayala Corporation. From 1997-2004, he was seconded to Ayala Land, Inc. as Vice President for the Land and Community Development Group where he was responsible for leading several expansion projects and overseeing the land acquisition and development of various high-end subdivisions such as Nuvali, Westgrove Heights, Paseo de Magallanes, Ayala Southvale, and Ayala Heights. Prior to joining Ayala, he worked at Bankers Trust Company (Manila OBU) and AB Capital and Investment Corporation.

Jacinto received a degree in Business Economics (magna cum laude) from the University of the Philippines in 1982. In 1986, he obtained his Master's degree in Business Administration from the Harvard Business School. Jacinto has continued his professional development by attending executive education courses at Harvard and IESE in Barcelona.

**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 his expertise 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 has also previously served as Co-Chairman and President of the Lina Group of Companies and a member of the Toyota Motor Corporation's Board of Directors.

Parayno 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, as well as taught at the Philippine Military Academy and the University of the Philippines. He has further 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

**ARTHUR EMMANUEL**
*Senior Adviser to the Board*

Arthur Emmanuel is a Senior Adviser to the Board of MRSGI. He was appointed as President and COO of MRSGI from 2014 to 2018. He also served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation.

Emmanuel brings decades of retail experience honed at WalMart, 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, 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 WalMart University and a frequent keynote speaker on behalf of WalMart Stores, Inc. His contributions have earned him accolades, including the WalMart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement, and the WalMart International Awards, recognizing WalMart's growth in Argentina, Brazil, and Mexico.

He earned his Transition to Management MBA from Columbia University in 2006.

**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 at Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority, and Psi Technologies.

A Certified 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 for 2008.

# KEY EXECUTIVES AND SENIOR MANAGEMENT

**Frank S. Gaisano**
Chairman & Chief Executive Officer

**Manuel C. Alberto**
President & Chief Operating Officer

**Luz A. Bitang**
Vice President for Corporate Services

**Rex Jun T. Cabanilla**
Chief Technology Officer

**Hermar L. Guitering**
Vice President for Logistics

**Antonio P. Jacomina III**
Vice President for Human Resources

**Arnold M. Leoncio**
Vice President for Business Development & Investor Relations

**Lucille S. Malazarte**
Vice President for Financial Comptrollership

**Fili P. Mercado**
Chief Merchandising Officer

**Benedict Clark T. Miranda**
Vice President for Land & Space

**Joselito G. Orense**
Treasurer & Chief Finance Officer

**Anna Marie K. Periquet**
Vice President for Corporate Affairs

**Vincent A. Tomaneng**
Corporate Secretary & Chief Legal Counsel

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results of Operations

### *The year ended December 31, 2021 compared with the year ended December 31, 2020*

### Revenue

*Net sales*

For the year ended December 31, 2021, our net sales were PhP31,211.3 million, a decrease of 0.2% compared to PhP31,286.3 million for the year ended December 31, 2020.

Both food retail and general merchandise declined by 0.2% over the same period last year. In the middle of March 2020, department stores were temporarily closed brought about by the COVID-19 outbreak. These were gradually opened but were faced with customer traffic constraint since community quarantine is still in effect and as consumers prioritized the purchase of essential goods in general. Further, operations of various stores in Visayas were disrupted after typhoon Odette's onslaught last December 16, 2021.

Blended same-store sales declined by 5.2% over the same period last year.

*Rental income*

For the year ended December 31, 2021, our rental income was PhP172.5 million, an increase of 17.5% compared to PhP146.8 million for the year ended December 31, 2020. The increase is primarily due to the gradual re-opening of non-essential tenants.

### Costs and expenses

*Cost of sales*

For the year ended December 31, 2021, our cost of sales was PhP25,336.4 million, an increase of 1.5% compared to PhP24,960.2 million for the year ended December 31, 2020. Cost of sales increased slightly higher than net sales as consumers prioritized the purchase of essential goods in general, which typically has low margins.

*Operating expenses*

For the year ended December 31, 2021, our operating expenses were PhP5,962.5 million, a decrease of 12.0% compared to PhP6,775.5 million for the year ended December 31, 2020. The decrease in operating expenses is mainly attributable to the increased efficiency and continuous cost reduction and saving measures implemented by the Company.

In 2020, the Company incurred losses on stores closure amounting to PhP217.4 million. This pertains to loss on retirement of property and equipment as a result of permanent stores closure amounting to PhP322.29 million, net of gain on pre-termination of lease contract amounting to PhP104.84 million.

*Interest and other income*

For the year ended December 31, 2021, our interest and other income was PhP39.5 million, a decrease of 85.3% compared to PhP269.2 million for the year ended December 31, 2020.

The decrease is caused by the timing of recognition of recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to nil and PhP104.4 million for the year ended December 31, 2021 and 2020, respectively.

In 2021, the Company recognized casualty loss for inventory and property damages brought about by typhoon Odette last December 16, 2021 amounting to PhP34.4 million. The Company already filed insurance claims for damages caused by the typhoon.

In addition, there is a decrease in interest income due to lower placements coupled with lower interest rates which ranges from 0.1% to 2.0% in 2021, compared to 0.1% to 4.5% in 2020. This amounted to PhP29.1 million and PhP50.8 million in 2021 and 2020, respectively.

#### *Finance costs*

For the year ended December 31, 2021, our finance costs were PhP469.5 million, a decrease of 8.3% compared to PhP512.2 million for the year ended December 31, 2020. The decrease is primarily driven by the decrease in finance cost related to lease liabilities, offset with the increase on finance costs related to the Company's outstanding loans payable.

#### *Benefit from income tax*

For the year ended December 31, 2021, our benefit from income tax was PhP26.9 million, a decrease of 71.9% compared to PhP95.9 million for the year ended December 31, 2020. The decrease in benefit from income tax was primarily due to the reduction in loss before tax.

### Net loss

As a result of the foregoing, for the year ended December 31, 2021, net loss was PhP318.1 million, an improvement of 29.2% compared to the net loss of PhP449.6 million for the year ended December 31, 2020.

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

### Revenue

#### *Net sales*

For the year ended December 31, 2020, our net sales were PhP31,286.3 million, a decrease of 15.0% compared to PhP36,790.2 million for the year ended December 31, 2019.

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

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

#### *Rental income*

For the year ended December 31, 2020, our rental income was PhP146.8 million, a decrease of 42.6% compared to PhP255.8 million for the year ended December 31, 2019. Decrease in rental income is primarily due to the temporary closure of non-essential tenants as a result of the community quarantine brought about by the COVID-19 outbreak, as well as, rental concessions extended to tenants who continued to operate.

### Costs and expenses

#### *Cost of sales*

For the year ended December 31, 2020, our cost of sales was PhP24,960.2 million, a decrease of 12.7% compared to PhP28,592.5 million for the year ended December 31, 2019. Cost of sales declined slower than net sales since the food business which typically has a higher cost of sales compared to our general merchandise business continued to thrive despite the COVID-19 outbreak, while our general merchandise business declined.

### *Operating expenses*

For the year ended December 31, 2020, our operating expenses were PhP6,775.5 million, a decrease of 8.3% compared to PhP7,390.2 million for the year ended December 31, 2019.

The decrease in operating expenses was primarily driven by the disrupted operations of department stores due to COVID-19 pandemic, offset by the recognition of non-recurring expenses in connection with the streamlining of operations and rationalization of stores and workforce of the Company in response to the impact of COVID-19 pandemic amounting to PhP270.2 million.

### *Interest and other income*

For the year ended December 31, 2020, our interest and other income was PhP269.2 million, a decrease of 62.0% compared to PhP709.3 million for the year ended December 31, 2019.

The decrease is caused by the timing of recognition of recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to PhP104.4 million and PhP538.7 million for the year ended December 31, 2020 and 2019, respectively.

In addition, there is a decrease in interest income due to lower placements coupled with lower interest rates which ranges from 0.1% to 4.5% this year. This amounted to PhP50.8 million and PhP101.9 million in 2020 and 2019, respectively.

### *Finance costs*

For the year ended December 31, 2020, our finance costs were PhP512.2 million, a decrease of 15.7% compared to PhP607.5 million for the year ended December 31, 2019. The decrease is primarily driven by the decrease in finance cost related to lease liabilities, offset with the increase on finance costs related to the Company's outstanding loans payable.

### *Provision for (benefit from) income tax*

For the year ended December 31, 2020, our benefit from income tax was PhP95.9 million, a decrease of 124.6% compared to the provision for income tax of PhP389.4 million for the year ended December 31, 2019. The decrease in provision for income tax was primarily due to the decrease in income before tax.

### Net income (loss)

As a result of the foregoing, for the year ended December 31, 2020, net loss was PhP449.6 million, a decrease of 158.0% compared to the net income of PhP775.6 million for the year ended December 31, 2019.

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

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

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

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

| | 2019 | | | | 2019 versus 2018 % Increase/(Decrease) | |
|---|---|---|---|---|---|---|
| | As reported | Before PFRS 16 | Effect of adoption | 2018 | As reported | Before PFRS 16 |
| REVENUE | | | | | | |
| Net sales | 36,790.2 | 36,790.2 | - | 33,050.1 | 11.3% | 11.3% |
| Rentals | 255.8 | 255.8 | - | 233.7 | 9.5% | 9.5% |
| | **37,046.0** | **37,046.0** | **-** | **33,283.8** | **11.3%** | **11.3%** |
| COSTS AND EXPENSES | | | | | | |
| Cost of sales | 28,592.5 | 28,592.5 | – | 25,650.0 | 11.5% | 11.5% |
| Operating expenses | 7,390.2 | 7,458.8 | (68.6) | 6,758.8 | 9.3% | 10.4% |
| | **35,982.7** | **36,051.3** | **(68.6)** | **32,408.8** | **11.0%** | **11.2%** |
| **Operating income** | **1,063.3** | **994.7** | **68.6** | **875.0** | **21.5%** | **13.7%** |
| OTHER INCOME (CHARGES) | | | | | | |
| Interest and other income | 709.3 | 709.3 | – | 490.6 | 44.6% | 44.6% |
| Finance costs | (607.5) | (19.3) | 588.2 | (19.0) | 3,097.4% | 1.6% |
| | **101.8** | **690.0** | **588.2** | **471.6** | **-78.4%** | **46.3%** |
| Income before income tax | 1,165.1 | 1,684.7 | (519.6) | 1,346.6 | -13.5% | 25.1% |
| Provision for income tax | 389.4 | 545.3 | (155.9) | 381.2 | 2.2% | 43.0% |
| **Net income** | **775.7** | **1,139.4** | **(363.7)** | **965.4** | **-19.7%** | **18.0%** |

## Revenue

*Net sales*

For the year ended December 31, 2019, our net sales were PhP36,790.2 million, an increase of 11.3% compared to PhP33,050.1 million for the year ended December 31, 2018. The opening of four (4) new stores and the partial re-opening of the fire-damaged supermarket and department store boosted sales, in addition to the same-store sales growth of 2.2%.

*Rental income*

For the year ended December 31, 2019, our rental income was PhP255.8 million, an increase of 9.4% compared to PhP233.8 million for the year ended December 31, 2018. Increase in rental income is primarily due to the opening of new stores and partial re-opening of the fire-damaged supermarket and department store, which increased net leasable space, coupled with increase in rental fees due to escalation clauses in our existing lease agreements.

## Costs and expenses

*Cost of sales*

For the year ended December 31, 2019, our cost of sales was PhP28,592.5 million, an increase of 11.5% compared to PhP25,650.0 million for the year ended December 31, 2018. Cost of sales grew slightly faster than net sales due to faster rate of growth of our food retail business, which typically have a higher cost of sales compared to our general merchandise.

*Operating expenses*

For the year ended December 31, 2019, our operating expenses were PhP7,390.2 million, an increase of 9.3% compared to PhP6,758.8 million for the year ended December 31, 2018. The increase in operating expenses was primarily driven by the opening of new stores, as well as, the partial re-opening of the fire-damaged supermarket and department store, offset by the effect of PFRS 16 Leases adoption as at January 1, 2019.

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

### *Interest and other income*

For the year ended December 31, 2019, our interest and other income was PhP709.3 million, an increase of 44.6% compared to PhP490.6 million for the year ended December 31, 2018.

The increase was primarily due to recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to PhP538.7 million and PhP350.7 million in 2019 and 2018, respectively.

In addition, there was an increase in interest income from money market placements due to higher placements and interest rates in 2019. This amounted to PhP101.9 million and PhP75.1 million in 2019 and 2018, respectively.

### *Finance costs*

For the year ended December 31, 2019, our finance costs were PhP607.5 million, an increase of 3097.4% compared to PhP19.0 million for the year ended December 31, 2018. The increase in finance costs is primarily driven by the adoption of PFRS 16 Leases as at January 1, 2019.

### *Provision for income tax*

For the year ended December 31, 2019, our provision for income tax was PhP389.4 million, an increase of 2.2% compared to PhP381.2 million for the year ended December 31, 2018. Although, there is a decrease in income before tax in 2019, Provision for income tax increased due to the tax effects of nondeductible expenses, income subject to final tax and related adjustments of deferred tax assets.

### Net income

As a result of the foregoing, for the year ended December 31, 2019, Net income was PhP775.6 million, a decrease of 19.7% compared to PhP965.4 million for the year ended December 31, 2018.

## Financial Position

## *The year ended December 31, 2021 compared with the year ended December 31, 2020*

As of December 31, 2021 and 2020, our net current assets, or the difference between total current assets and total current liabilities, were PhP3,449.7 million and PhP2,996.5 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, 2021 and 2020 were PhP8,298.6 million and PhP9,722.5 million, respectively. The decrease of 14.6% in current assets is due to the decrease in inventories and cash and cash equivalents.

As of December 31, 2021, short-term investment totaled PhP1,091.6 million, receivables totaled PhP669.9 million, merchandise inventories totaled PhP4,163.0 million and other current assets totaled PhP702.3 million. As of December 31, 2020, short-term investment totaled PhP1,270.6 million, receivables totaled PhP672.1 million, merchandise inventories totaled PhP4,981.6 million and other current assets totaled PhP540.9 million.

As of December 31, 2021, cash and cash equivalents amounted to PhP1,671.8 million, a decrease of 25.9% from PhP2,257.3 million as of December 31, 2020. The decrease were mainly attributable to the additions to property and equipment amounting to PhP790.8 million and payment for lease liabilities of PhP677.2 million, offset by the decrease in short-term investments of PhP179.0 million and the PhP763.9 million cash provided by operating activities.

### *Non-current assets*

Our non-current assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total non-current assets as of December 31, 2021 and 2020 were PhP11,137.1 million and PhP11,651.4 million, respectively. The decrease of 4.4% in non-current assets is significantly due to the movement in right-of-use assets as a result of lease modifications, recognition of allowance for impairment losses, as well as, the depreciation and amortization.

### *Current liabilities*

Total current liabilities as of December 31, 2021 and 2020 were PhP4,848.9 million and PhP6,726.0 million, respectively. As of December 31, 2021 and 2020, trade and other payables totaled PhP3,537.0 million and PhP4,642.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable - current portion amounted to PhP1,000.0 million and PhP1,500.0 million as of December 31, 2021 and 2020, respectively.

### *Non-current liabilities*

Total non-current liabilities as of December 31, 2021 and 2020 were PhP6,413.6 million and PhP6,111.6 million, respectively. The increase of 4.9% in non-current liabilities is significantly due to the availment of a long-term loan of PhP500.0 million, offset by the movement in lease liabilities as a result of lease modifications.

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

As of December 31, 2020 and 2019, our net current assets, or the difference between total current assets and total current liabilities, were PhP2,996.5 million and PhP3,123.8 million, respectively, representing a positive net working capital position.

### *Current assets*

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2020 and 2019 were PhP9,722.5 million and PhP9,816.0 million, respectively. The decrease of 1.0% in current assets is due to the decrease in receivables and cash and cash equivalents, offset by the increase in short-term investment, inventories and other current assets.

As of December 31, 2020, short-term investment totaled PhP1,270.6 million, receivables totaled PhP672.1 million, merchandise inventories totaled PhP4,981.6 million and other current assets totaled PhP540.9 million. As of December 31, 2019, short-term investment totaled PhP629.6 million, receivables totaled PhP1,146.3 million, merchandise inventories totaled PhP4,636.6 million and other current assets totaled PhP494.4 million.

As of December 31, 2020, cash and cash equivalents amounted to PhP2,257.3 million, a decrease of 22.4% from PhP2,909.1 million as of December 31, 2019. The decrease were mainly attributable to the additions to property and equipment amounting to PhP737.2 million, increase in short-term investments of PhP641.1 million, dividend payment amounting to PhP205.8 million and payment for lease liabilities of PhP1,002.0 million, offset by the loan proceeds of PhP1,500.0 million and PhP472.4 million cash provided by operating activities.

### *Non-current assets*

Our non-current assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total non-current assets as of December 31, 2020 and 2019 were PhP11,651.4 million and PhP13,548.6 million, respectively. The decrease of 14.0% in non-current assets is significantly due to the movement in right-of-use assets as a result of lease modifications, recognition of allowance for impairment losses, as well as, the depreciation and amortization.

### *Current liabilities*

Total current liabilities as of December 31, 2020 and 2019 were PhP6,726.0 million and PhP6,692.2 million, respectively. As of December 31, 2020 and 2019, trade and other payables totaled PhP4,642.3 million and PhP5,409.5 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to PhP1,500.0 million and nil as of December 31, 2020 and 2019, respectively.

### *Non-current liabilities*

Total non-current liabilities as of December 31, 2020 and 2019 were PhP6,111.6 million and PhP7,436.4 million, respectively. The decrease of 17.8% in non-current liabilities is significantly due to the movement in lease liabilities as a result of lease modifications.

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

As of December 31, 2019 and 2018, our net current assets, or the difference between total current assets and total current liabilities, were PhP3,123.8 million and PhP4,730.3 million, respectively, representing a positive net working capital position.

### *Current assets*

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2019 and 2018 were PhP9,816.0 million and PhP9,420.9 million, respectively. The increase of 4.2% in current assets is due to the increase in inventories and short-term investments, offset by the decrease in receivables and cash and cash equivalents.

As of December 31, 2019, short-term investment totaled PhP629.6 million, receivables totaled PhP1,146.3 million, merchandise inventories totaled PhP4,636.6 million and other current assets totaled PhP494.4 million. As of December 31, 2018, short-term investment totaled PhP358.4 million, receivables totaled PhP1,371.6 million, merchandise inventories totaled PhP3,589.6 million and other current assets totaled PhP495.1 million.

As of December 31, 2019, cash and cash equivalents amounted to PhP2,909.1 million, a decrease of 19.3% from PhP3,606.2 million as of December 31, 2018. The decrease were mainly attributable to the additions to property and equipment amounting to PhP1,942.4 million, dividend payment amounting to PhP205.8 million and payment for lease liabilities of PhP1,300.3 million but were offset by the PhP3,297.7 million generated from operating activities.

### *Non-current assets*

Our non-current assets consist of property and equipment, right-of-use assets, deferred tax assets–net and non-current assets. Total non-current assets as of December 31, 2019 and 2018 were PhP13,548.6 million and PhP4,447.5 million, respectively. The increase of 2046.3% in non-current assets is significantly due to the recognition of right-of-use assets as result of adoption of PFRS 16 Leases applied prospectively.

### *Current liabilities*

Total current liabilities as of December 31, 2019 and 2018 were PhP6,692.2 million and PhP4,690.6 million, respectively. As of December 31, 2019 and 2018, trade and other payables totaled PhP5,409.5 million and PhP4,392.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

### *Non-current liabilities*

Total non-current liabilities as of December 31, 2019 and 2018 were PhP7,436.4 million and PhP474.9 million, respectively. The increase of 1465.9% in non-current liabilities is significantly due to the recognition of lease liabilities as result of adoption of PFRS 16 Leases applied prospectively.

## Cash Flows

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | | (PhP million) | |
| Net cash flows generated from operating activities | 763.9 | 472.4 | 3,297.7 |
| Net cash flows used in investing activities | (568.6) | (1,410.3) | (2,480.2) |
| Net cash flows provided (used in) financing activities | (783.6) | 292.2 | (1,506.1) |
| **Net decrease in cash** | **(588.3)** | **(645.7)** | **(688.6)** |

### *Net cash flows from operating activities*

Our net cash flows from operating activities for the year ended December 31, 2021 was PhP763.9 million, which is comprised of operating income before working capital changes of PhP1,387.2 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the decrease in trade and other payables of PhP1,112.6 million and increase in other current assets of PhP212.7 million, offset by the decrease in merchandise inventory of PhP764.6 million.

Our net cash flows from operating activities for the year ended December 31, 2020 was PhP472.4 million, which is comprised of operating income before working capital changes of PhP1,603.6 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the decrease in trade and other payables of PhP834.5 million, increase in merchandise inventory of PhP390.5 million and increase in other current assets of PhP22.3 million, offset by the decrease in receivables of PhP339.3 million.

Our net cash flows from operating activities for the year ended December 31, 2019 was PhP3,297.7 million, which is comprised of operating income before working capital changes of PhP2,935.0 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in trade and other payables of PhP1,016.7 million offset by the increase in merchandise inventories of PhP1,047.0 million and receivables of PhP124.6 million.

### *Net cash flows used in investing activities*

For the year ended December 31, 2021, net cash flows used in investing activities was PhP568.6 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to PhP790.8 million, offset by the decrease in short-term investments by PhP179.0 million and decrease in other non-current assets by PhP43.2 million.

For the year ended December 31, 2020, net cash flows used in investing activities was PhP1,410.3 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to PhP737.2 million, increase in short-term investments by PhP641.1 million and increase in other non-current assets by PhP32.1 million.

For the year ended December 31, 2019, net cash flows used in investing activities was PhP2,480.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to PhP1,942.4 million, increase in other non-current assets by PhP266.7 million due to advance payments to suppliers for purchases of property and equipment, and increase in short-term investments by PhP271.1 million.

### *Net cash flows used in financing activities*

Net cash flows used in financing activities was PhP783.6 million for the year ended December 31, 2021, as a result of the payments of lease liabilities amounting to PhP677.2 million and purchase of treasury stock amounting to PhP102.6 million.

Net cash flows generated from financing activities was PhP292.2 million for the year ended December 31, 2020, as a result of proceeds from loan of PhP1,500.0 million offset by payments of lease liabilities amounting to PhP1,002.0 million and payment of cash dividends amounting to PhP205.8 million declared on May 14, 2020.

Net cash flows used in financing activities was PhP1,506.1 million for the year ended December 31, 2019, as a result of payments of lease liabilities amounting to PhP1,300.3 million and payment of cash dividends amounting to PhP205.8 million declared on March 18, 2019.

### *Indebtedness*

As of December 31, 2021 and 2020, outstanding loans payable amounted to PhP1,496.7 million and PhP1,500.0 million, respectively.

### Key Performance Indicators

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Net sales[1] (PhP million) | 31,211.3* | 31,286.3* | 36,790.2* |
| Average basket size[2] (PhP) | 1,067.7* | 929.5* | 622.5* |
| Same-store sales growth[3] (%) | -5.2%* | -19.3%* | 2.2%* |
| Number of stores | 61* | 56* | 57* |
| Net selling area[4] (sqm) | 247,576* | 224,282* | 234,893* |

*excludes discontinued operations and temporary closure of stores

*Notes:*

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

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

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

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

### Quantitative and Qualitative Disclosure of Market Risk

Our principal financial instruments consist of cash and cash equivalent, short-term investment, and receivables. The main purpose of our financial instruments is to fund our operations and capital expenditures. We do not actively engage in the trading of financial assets for speculative purposes nor do we write options. The main risks arising from our financial instruments are liquidity risk and credit risk. See Note 27 of the notes to our audited financial statements.

#### *Liquidity Risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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.

#### *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.

**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.

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

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

# FINANCIAL STATEMENTS

# 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, 2021 and 2020, 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 29, 2022

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 07 2022
DPQA SECTION INITIAL

**SUBSCRIBED AND SWORN** to before me this MAR 28 2022 affiants exhibiting to me their respective Philippine passports as follows:

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

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Book No. 14
Series of 20 22

ATTY. JENNYLYN R. OJANO-SABADO
Notary Public City of Taguig
Until 31 December 2022
IBP O.R No. 168265 Issued on December 17, 2021
PTR No. 8852508 / 3 January 2022/ Makati City
Appointment No. M-4-(2021-2022)
MCLE Compliance No. VII-0000019
Unit 25, G/F Fiesta Market Market, KKT
BGC, Taguig City
Roll No. 71171

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

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

METRO
RETAIL STORES GROUP, INC.

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

The Management of METRO RETAIL STORES GROUP, INC. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2021. Management is likewise responsible for all *information* and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2021 and the accompanying Annual Income Tax Return are in accordance with the books and records of METRO RETAIL STORES GROUP, INC., complete and correct in all materials respects. Management likewise affirms that:

a. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation f the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

c. METRO RETAIL STORES GROUP, INC, has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

SUBSCRIBED AND SWORN to before me this MAR 2 8 2022 day of at Taguig City affiant exhibited to ID No

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 29, 2022

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Series of 20 22

ATTY. JENNYLYN R. OJANO-SABADO
Notary Public City of Taguig
Until 31 December 2022
IBP O.R No. 168265 issued on December 17, 2021
PTR No. 8852508 / 3 January 2022/ Makati City
Appointment No. M-4-(2021-2022)
MCLE Compliance No. VII-0003699
Unit 25, G/F Fiesta Market Market Ext.
BGC, Taguig City
Roll No. 71171

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 0 7 2022
DPQA SECTION INITIAL

# C O V E R   S H E E T
**for**
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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

C O M P A N Y   N A M E

**METRO RETAIL STORES GROUP, INC.**

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

**VICSAL BUILDING, CORNER OF C.D. SENO AND W.O. SENO STREETS, GUIZO, NORTH RECLAMATION AREA, MANDAUE CITY, CEBU**

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | N/A |

C O M P A N Y   I N F O R M A T I O N

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| **vicsal.sec@ metroretail.ph** | **(032) 236-8390** | **N/A** |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| **24** | **First Friday of May** | **December 31** |

CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| **Joselito G. Orense** | **joel.orense@metroretail.ph** | **(032) 236-7793** | **N/A** |

CONTACT PERSON's ADDRESS

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT**

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc., which comprise the statements of financial position as at December 31, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021 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 Matters

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

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

**Impairment Testing of Nonfinancial Assets**

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

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

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

**Existence and completeness of merchandise inventories**

The Company's inventories comprise 21% of its total assets as at December 31, 2021. The Company operates 61 stores (consisting of department stores, supermarkets and hypermarkets) and 11 warehouses in Luzon and Visayas. We focused on this area since inventories are material to the financial statements and are located in various sites across the country.

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

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

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, 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, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.  The supplementary information required under BSP Circular No. 1075 in Note 29 and Revenue Regulations 15-2010 in Note 30 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and are not required parts of the basic financial statements.  Such information are the responsibility of the management of Metro Retail Stores Group, Inc.  The information have been subjected to the auditing procedures applied in our audit of the basic financial statements.  In our opinion, the information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Ma. Genalin Q. Arevalo.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
Tax Identification No. 224-024-926
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1613-AR-1 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-123-2019, November 27, 2019, valid until November 26, 2022
PTR No. 8853466, January 3, 2022, Makati City

March 29, 2022

## METRO RETAIL STORES GROUP, INC.
## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2021** | 2020 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4 and 27) | **₱1,671,751,798** | ₱2,257,268,691 |
| Short-term investments (Notes 5 and 27) | **1,091,644,133** | 1,270,644,434 |
| Receivables (Notes 6 and 27) | **669,943,462** | 672,127,679 |
| Merchandise inventories (Note 7) | **4,163,043,783** | 4,981,620,260 |
| Other current assets (Notes 8 and 27) | **702,255,561** | 540,865,116 |
| **Total Current Assets** | **8,298,638,737** | 9,722,526,180 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 9) | **5,325,379,067** | 4,954,668,833 |
| Right-of-use ("ROU") assets (Note 24) | **4,700,055,422** | 5,408,172,114 |
| Deferred tax assets - net (Note 23) | **606,630,930** | 568,063,929 |
| Other noncurrent assets (Notes 10 and 27) | **505,051,360** | 720,530,258 |
| **Total Noncurrent Assets** | **11,137,116,779** | 11,651,435,134 |
| **TOTAL ASSETS** | **₱19,435,755,516** | ₱21,373,961,314 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 11 and 27) | **₱3,536,960,607** | ₱4,642,332,394 |
| Contract liabilities (Note 12) | **99,893,390** | 82,133,740 |
| Loans payable - current portion (Note 13) | **1,000,000,000** | 1,500,000,000 |
| Income tax payable | **–** | 21,977,105 |
| Lease liabilities - current portion (Notes 24 and 27) | **212,043,486** | 479,564,316 |
| **Total Current Liabilities** | **4,848,897,483** | 6,726,007,555 |
| **Noncurrent Liabilities** | | |
| Lease liabilities - net of current portion (Notes 24 and 27) | **5,362,911,707** | 5,542,385,955 |
| Retirement benefit obligation (Note 21) | **536,848,593** | 563,608,003 |
| Loans payable - net of current portion (Note 13) | **496,669,910** | – |
| Other noncurrent liabilities (Notes 14 and 27) | **17,130,032** | 5,624,863 |
| **Total Noncurrent Liabilities** | **6,413,560,242** | 6,111,618,821 |
| **Total Liabilities** | **11,262,457,725** | 12,837,626,376 |
| **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 |
| Treasury stock (Note 15) | **(102,572,930)** | – |
| Retained earnings (Note 15) | **2,371,901,941** | 2,690,003,170 |
| Remeasurement gain (loss) on defined benefit obligation (Note 21) | **19,051,631** | (38,585,381) |
| **Total Equity** | **8,173,297,791** | 8,536,334,938 |
| **TOTAL LIABILITIES AND EQUITY** | **₱19,435,755,516** | ₱21,373,961,314 |

*See accompanying Notes to Financial Statements.*

## METRO RETAIL STORES GROUP, INC.

## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| **REVENUE** | | | |
| Net sales (Note 16) | **₱31,211,348,935** | ₱31,286,312,987 | ₱36,790,177,798 |
| Rentals (Notes 22 and 24) | **172,466,727** | 146,843,483 | 255,810,221 |
| | **31,383,815,662** | 31,433,156,470 | 37,045,988,019 |
| **COSTS AND EXPENSES** | | | |
| Cost of sales (Note 18) | **25,336,357,749** | 24,960,173,867 | 28,592,544,037 |
| Operating expenses (Note 19) | **5,962,470,235** | 6,775,499,850 | 7,390,186,363 |
| | **31,298,827,984** | 31,735,673,717 | 35,982,730,400 |
| **OPERATING INCOME (LOSS)** | **84,987,678** | (302,517,247) | 1,063,257,619 |
| **OTHER INCOME (CHARGES)** (Note 17) | | | |
| Interest and other income | **39,456,118** | 269,182,058 | 709,303,783 |
| Finance costs | **(469,455,919)** | (512,183,440) | (607,483,396) |
| | **(429,999,801)** | (243,001,382) | 101,820,387 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **(345,012,123)** | (545,518,629) | 1,165,078,006 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 23) | | | |
| Current | **34,531,735** | 143,886,188 | 529,883,374 |
| Deferred | **(61,442,629)** | (239,813,226) | (140,450,099) |
| | **(26,910,894)** | (95,927,038) | 389,433,275 |
| **NET INCOME (LOSS)** | **(318,101,229)** | (449,591,591) | 775,644,731 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Not to be reclassified to profit or loss in subsequent periods* | | | |
| Remeasurement gain (loss) on defined benefit obligation (Note 21) | **80,512,638** | (63,250,628) | (52,767,286) |
| Income tax effect (Note 23) | **(22,875,626)** | 18,975,188 | 15,830,186 |
| | **57,637,012** | (44,275,440) | (36,937,100) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱260,464,217)** | (₱493,867,031) | ₱738,707,631 |
| **Basic/Diluted Earnings (Loss) Per Share** (Note 25) | **(₱0.09)** | (₱0.13) | ₱0.23 |

*See accompanying Notes to Financial Statements.*

## METRO RETAIL STORES GROUP, INC.

## STATEMENTS OF CHANGES IN EQUITY

**For the years ended December 31, 2021, 2020 and 2019**

| | Capital Stock (Note 15) | Additional Paid-in Capital (Note 15) | Treasury Stock (Note 15) | Retained Earnings (Note 15) | Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 21) | Total |
|---|---|---|---|---|---|---|
| **At January 1, 2021** | **₱3,429,375,000** | **₱2,455,542,149** | **₱–** | **₱2,690,003,170** | **(₱38,585,381)** | **₱8,536,334,938** |
| Net loss for the year | **–** | **–** | **–** | **(318,101,229)** | **–** | **(318,101,229)** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **57,637,012** | **57,637,012** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **(318,101,229)** | **57,637,012** | **(260,464,217)** |
| Acquisition of treasury stock (Note 15) | **–** | **–** | **(102,572,930)** | **–** | **–** | **(102,572,930)** |
| **At December 31, 2021** | **₱3,429,375,000** | **₱2,455,542,149** | **(₱102,572,930)** | **₱2,371,901,941** | **₱19,051,631** | **₱8,173,297,791** |
| | | | | | | |
| At January 1, 2020 | ₱3,429,375,000 | ₱2,455,542,149 | ₱– | ₱3,345,357,261 | ₱5,690,059 | ₱9,235,964,469 |
| Net loss for the year | – | – | – | (449,591,591) | – | (449,591,591) |
| Other comprehensive loss | – | – | – | – | (44,275,440) | (44,275,440) |
| Total comprehensive loss | – | – | – | (449,591,591) | (44,275,440) | (493,867,031) |
| Declaration of dividends (Note 15) | – | – | – | (205,762,500) | – | (205,762,500) |
| At December 31, 2020 | ₱3,429,375,000 | ₱2,455,542,149 | ₱– | ₱2,690,003,170 | (₱38,585,381) | ₱8,536,334,938 |
| | | | | | | |
| At January 1, 2019 | ₱3,429,375,000 | ₱2,455,542,149 | ₱– | ₱2,775,475,030 | ₱42,627,159 | ₱8,703,019,338 |
| Net income for the year | – | – | – | 775,644,731 | – | 775,644,731 |
| Other comprehensive loss | – | – | – | – | (36,937,100) | (36,937,100) |
| Total comprehensive income (loss) | – | – | – | 775,644,731 | (36,937,100) | 738,707,631 |
| Declaration of dividends (Note 15) | – | – | – | (205,762,500) | – | (205,762,500) |
| At December 31, 2019 | ₱3,429,375,000 | ₱2,455,542,149 | ₱– | ₱3,345,357,261 | ₱5,690,059 | ₱9,235,964,469 |

*See accompanying Notes to Financial Statements.*

## METRO RETAIL STORES GROUP, INC.

## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before income tax | **(₱345,012,123)** | (₱545,518,629) | ₱1,165,078,006 |
| Adjustments for: | | | |
| Depreciation and amortization of PPE (Note 9) | **606,735,487** | 497,444,254 | 480,904,170 |
| Depreciation and amortization of ROU assets - net (Note 24) | **518,263,490** | 859,437,309 | 1,241,452,884 |
| Finance costs (Note 17) | **469,455,919** | 512,183,440 | 607,483,396 |
| Retirement benefits costs (Note 21) | **68,241,526** | 88,378,081 | 58,373,098 |
| Casualty loss from typhoon Odette (Notes 7, 9 and 17) | **34,387,035** | – | – |
| Interest income (Note 17) | **(29,076,640)** | (50,751,483) | (101,905,155) |
| Provision for impairment and write off of nonfinancial assets (Notes 8 and 19) | **23,660,791** | 133,358,471 | 6,226,120 |
| Provision for impairment and write off of receivables (Notes 6 and 19) | **23,447,783** | 24,292,248 | 4,662,102 |
| Provision for decline in inventories value (Note 7) | **20,076,626** | 45,465,268 | – |
| Gain on lease modification (Note 24) | **(4,830,438)** | (84,463,838) | – |
| Loss on retirement of property and equipment (Note 9) | **4,649,628** | 4,532,824 | 2,999,512 |
| Foreign currency exchange losses (gains) (Note 17) | **(2,761,482)** | 6,164,814 | 8,451,855 |
| Loss on stores closure - net (Note 19) | **–** | 217,449,025 | – |
| Gain on insurance claims - net (Note 17) | **–** | (104,364,149) | (538,743,310) |
| Operating income before working capital changes | **1,387,237,602** | 1,603,607,635 | 2,934,982,678 |
| Decrease (increase) in: | | | |
| Merchandise inventories | **764,605,251** | (390,509,258) | (1,046,971,099) |
| Other current assets | **(212,725,910)** | (22,274,650) | (3,660,565) |
| Receivables | **(25,440,019)** | 339,300,631 | (124,632,504) |
| Increase (decrease) in: | | | |
| Trade and other payables | **(1,112,623,056)** | (834,521,785) | 1,016,713,991 |
| Contract liabilities | **17,759,650** | (21,392,097) | 330,177 |
| Other noncurrent liabilities | **11,505,169** | 290,785 | 12,521,555 |
| Cash flows generated from operations | **830,318,687** | 674,501,261 | 2,789,284,233 |
| Interest paid | **(56,362,076)** | (27,123,619) | (16,835,233) |
| Interest received | **33,253,093** | 57,013,949 | 96,819,732 |
| Income tax paid | **(28,834,164)** | (352,087,946) | (458,044,440) |
| Retirement benefits paid, including retrenchment pay | **(14,488,298)** | (88,643,728) | (3,524,263) |
| Proceeds from insurance claims on merchandise inventory and business interruption | **–** | 208,728,297 | 890,004,510 |
| Net cash provided by operating activities | **763,887,242** | 472,388,214 | 3,297,704,539 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of property and equipment (Note 9) | **(790,785,583)** | (737,201,461) | (1,942,356,492) |
| Proceeds from (availment of) short-term investments | **179,000,301** | (641,069,460) | (271,136,570) |
| Decrease (increase) in other noncurrent assets | **43,168,298** | (32,054,926) | (266,733,530) |
| Net cash used in investing activities | **(568,616,984)** | (1,410,325,847) | (2,480,226,592) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loan availment (Note 13) | **1,300,000,000** | 1,500,000,000 | 200,000,000 |
| Purchase of treasury stock (Note 15) | **(102,572,930)** | – | – |
| Payments of: | | | |
| Loans payable | **(1,300,000,000)** | – | (200,000,000) |
| Lease liabilities (Note 24) | **(677,225,703)** | (1,001,989,894) | (1,300,319,804) |
| Debt issue cost (Note 13) | **(3,750,000)** | – | – |
| Cash dividends (Note 15) | **–** | (205,762,268) | (205,762,392) |
| Net cash provided by (used in) financing activities | **(783,548,633)** | 292,247,838 | (1,506,082,196) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(588,278,375)** | (645,689,795) | (688,604,249) |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 17)** | **2,761,482** | (6,164,814) | (8,451,855) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,257,268,691** | 2,909,123,300 | 3,606,179,404 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)** | **₱1,671,751,798** | ₱2,257,268,691 | ₱2,909,123,300 |

*See accompanying Notes to Financial Statements.*

## 1. Corporate Information and Approval of the Financial Statements

Corporate Information

Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines. The Company is 78.31%-owned by Vicsal Development Corporation (VDC), 0.74%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

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

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

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2021 and 2020 and for each of the three years in the year ended December 31, 2021 were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2022.

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

Basis of Preparation

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

Statement of Compliance

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

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated:

- Amendments to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

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

- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and,
- There is no substantive change to other terms and conditions of the lease.

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

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Company adopted the amendments to PFRS 16 beginning January 1, 2021 and recognized the COVID-19 related rent concessions received by the Company as a lessee amounting to ₱187.47 million as variable lease payments, particularly as a deduction from “Depreciation of right-of-use assets” in the “Operating Expenses” section of the statements of comprehensive income (see Notes 19 and 24).

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

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

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

These amendments do not have any impact on the Company’s financial statements.

Standards and interpretation issued but not yet effective

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

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs* 2018–2020 Cycle

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

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

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

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

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

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

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

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

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

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, Definition of Accounting Estimates

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- Amendments to PAS 1, Classification of Liabilities as Current or Noncurrent

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:
  - What is meant by a right to defer settlement;
  - That a right to defer must exist at the end of the reporting period;
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

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

*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

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

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

*Deferred effectivity*

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

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

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

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

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

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

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

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

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

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

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

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

*Subsequent measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

*Financial assets at amortized cost (debt instruments)*
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

*Financial assets at fair value through OCI (debt instrument)*
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

The Company has no financial assets measured at FVPL.

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

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

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

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the

Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

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

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

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16, *Leases*.

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

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

Financial liabilities

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

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

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

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

*Financial liabilities at amortized cost*

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

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

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

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

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

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

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

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

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

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

Other Assets

*Deposits*

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

*Prepayments*

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

*Supplies*

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

*Advances to Suppliers*

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

Value-Added Tax (VAT)

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

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

*Deferred Input VAT*

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

Property and Equipment

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

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

*<u>Company as Lessee</u>*

*Right-of-use assets*

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

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

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

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

*Lease liabilities*

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

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

*Short-term leases and leases of low-value assets*
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

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

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

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

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

Retirement Benefit Obligation

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

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

Pension cost comprises the following:

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

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

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

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

Equity

*Capital Stock and Additional paid-in capital*

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

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

*Treasury shares*
Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

The retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

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

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

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

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

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

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

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

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

Contract Balances

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

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

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

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

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

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

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

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

Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

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

*Determination of lease term of contracts with renewal and termination options - Company as a lessee*
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

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

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

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

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

Accordingly, no provision for probable losses was recognized by the Company in 2021 and 2020.

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

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

The Company recognized provision for decline in inventory values amounting to ₱20.08 million and ₱45.47 million in 2021 and 2020, respectively. Allowance for decline in inventory value amounted to ₱65.54 million and ₱45.47 million as of December 31, 2021 and 2020, respectively (see Note 7). Merchandise inventories amounted to ₱4,163.04 million and ₱4,981.62 million as of December 31, 2021 and 2020, respectively (see Note 7).

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

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information including COVID-19 impact. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

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

The Company recognized provision for expected credit losses of receivables amounting to ₱7.38 million and ₱19.98 million in 2021 and 2020, respectively. Allowance for expected credit losses of receivables amounted to ₱35.61 million and ₱31.60 million as of December 31, 2021 and 2020, respectively. The carrying amount of receivables, net of valuation allowance, amounted to ₱669.94 million and ₱672.13 million as of December 31, 2021 and 2020, respectively (see Note 6).

Allowance for impairment losses on security deposit amounted to ₱6.22 million and nil as of December 31, 2021 and 2020, respectively. The carrying amount of security deposit, net of impairment losses, amounted to ₱218.22 million and ₱225.49 million as of December 31, 2021 and 2020, respectively (see Notes 8 and 10).

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

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

The Company permanently closed two of its stores in 2020 and decided to reduce lease spaces in certain stores effective in early 2021. These events and conditions are impairment indicators requiring the assessment of the recoverable amount of the 'property and equipment' and 'right-of-use assets'.

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

The significant assumptions used in the valuation are discount rates of 9.7%–10.5% and 10%–12% in 2021 and 2020, respectively, with an average growth rate of 3%. The Company also considered in its assumptions the impact of COVID-19 on sales which are not expected to normalize until 2023 and the updated costs structure based on changes implemented during the year.

As of December 31, 2021 and 2020, the carrying value of the Company's nonfinancial assets are, as follows:

| | **2021** | 2020 |
|---|---|---|
| Other current assets* (see Note 8) | **₱638,784,417** | ₱447,845,515 |
| Property and equipment (see Note 9) | **5,325,379,067** | 4,954,668,833 |
| Right-of-use assets (see Note 24) | **4,700,055,422** | 5,408,172,114 |
| Other noncurrent assets** (see Note 10) | **257,962,509** | 485,369,474 |
| | **₱10,922,181,415** | ₱11,296,055,936 |

**Excluding security deposits, net of allowance*
***Excluding security deposits, net of allowance and deposit to utility companies*

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

In 2021 and 2020, the Company recognized provision for impairment loss amounting to ₱6.22 million and nil, respectively, which pertains to estimated unrecoverable security deposits and long outstanding advances to nontrade suppliers (see Note 8).

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

The Company's lease liabilities amounted to ₱5,574.96 million and ₱6,021.95 million as of December 31, 2021 and 2020, respectively (see Note 24).

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

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

The Company's retirement benefits costs amounted to ₱68.24 million, ₱88.38 million and ₱58.37 million in 2021, 2020 and 2019, respectively. Retirement benefits obligation amounted to ₱536.85 million and ₱563.61 million as of December 31, 2021 and 2020, respectively (see Note 21).

## 4. Cash and Cash Equivalents

| | **2021** | 2020 |
|---|---|---|
| Cash on hand | **₱135,648,257** | ₱161,303,512 |
| Cash in banks | **1,434,909,883** | 1,592,950,321 |
| Cash equivalents | **101,193,658** | 503,014,858 |
| | **₱1,671,751,798** | ₱2,257,268,691 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn annual interest at the respective short-term rates that range from 0.10%–2.00% in 2021, 0.10%–4.50% in 2020 and 0.10%–7.38% in 2019.

Interest income earned from cash and cash equivalents amounted to ₱6.77 million, ₱14.96 million and ₱80.00 million in 2021, 2020 and 2019, respectively (see Note 17).

## 5. Short-term Investments

This account pertains to money market placements made for varying periods of up to one year depending on the immediate cash requirement of the Company and earn annual interest at the respective short-term investment rates that range from 1.70%–2.00%, 2.0%–5.25% and 4.0%–6.6% in 2021, 2020 and 2019, respectively.

Short term investments as of December 31, 2021 and 2020 amounted to ₱1,091.64 million and ₱1,270.64 million, respectively.

Interest income earned from short-term investments amounted to ₱21.43 million, ₱28.34 million and ₱14.77 million in 2021, 2020 and 2019, respectively (see Note 17).

## 6. Receivables

| | **2021** | 2020 |
|---|---|---|
| Trade | | |
| Third parties | **₱584,619,138** | ₱591,889,200 |
| Related parties (see Note 22) | **–** | 362,203 |
| Nontrade | | |
| Rentals | **39,095,564** | 30,863,966 |
| Related parties (see Note 22) | **21,346,974** | 42,418,814 |
| Accrued interest receivable | **4,079,885** | 8,256,342 |
| Receivable from SSS | **23,034,715** | 17,573,067 |
| Others | **33,373,205** | 12,359,419 |
| | **705,549,481** | 703,723,011 |
| Less allowance for expected credit losses | **35,606,019** | 31,595,332 |
| | **₱669,943,462** | ₱672,127,679 |

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

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

Receivable from Social Security System (SSS) pertains to maternity loans proceeds and are collectible on demand.

Others consist of advances to employees and construction cash bond for store fit-outs and are collectible on demand.

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

Trade receivables

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| At January 1 | **₱21,595,332** | ₱11,612,412 | ₱11,612,412 |
| Add provisions (see Note 19) | **7,376,230** | 9,982,920 | – |
| Less write-off | **(3,365,543)** | – | – |
| At December 31 | **₱25,606,019** | ₱21,595,332 | ₱11,612,412 |

Rentals

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| At January 1 | **₱10,000,000** | ₱– | ₱– |
| Add provisions (see Note 19) | **–** | 10,000,000 | – |
| At December 31 | **₱10,000,000** | ₱10,000,000 | ₱– |

The Company has directly written off receivables which are deemed uncollectible amounting to ₱16.07 million, ₱4.31 million and ₱3.70 million in 2021, 2020 and 2019, respectively (see Note 19).

## 7. Merchandise Inventories

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Beginning inventory | **₱4,981,620,260** | ₱4,636,576,270 | ₱3,589,605,171 |
| Add purchases - net | **24,568,611,392** | 25,276,452,552 | 29,601,659,711 |
| Cost of goods available for sale | **29,550,231,652** | 29,913,028,822 | 33,191,264,882 |
| Less cost of merchandise sold (Note 18) | **(25,287,751,375)** | (24,885,943,294) | (28,554,688,612) |
| Less inventory loss due to typhoon Odette (see Note 17) | **(33,894,600)** | – | – |
| | **4,228,585,677** | 5,027,085,528 | 4,636,576,270 |
| Less allowance for decline in inventory values (see Note 3) | **(65,541,894)** | (45,465,268) | – |
| Ending inventory | **₱4,163,043,783** | ₱4,981,620,260 | ₱4,636,576,270 |

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

In December 2021, various stores in Visayas were hit by typhoon Odette. The cost of the damaged inventories amounted to ₱33.89 million (see Note 17).

The inventories carried at NRV, which is the lower of cost or NRV, amounted to ₱41.33 million and ₱15.76 million as of December 31, 2021 and 2020, respectively.

The Company recognized provision for decline in inventory values amounting to ₱20.08 million, ₱45.47 million and nil in 2021, 2020 and 2019, respectively. These are lodged under "Others" in the Cost of Sales section in the statements of comprehensive income (see Note 18).

No inventories have been used or pledged as security for the Company's obligations in 2021 and 2020. The Company does not have any purchase commitments as of December 31, 2021 and 2020.

## 8. **Other Current Assets**

This account consists of:

| | **2021** | 2020 |
|---|---|---|
| Advances to trade suppliers | | |
| Related parties (see Note 22) | **₱194,523,890** | ₱117,822,501 |
| Third parties | **5,128,128** | 63,451 |
| Input VAT - net | **172,979,561** | 96,163,794 |
| Prepayments | | |
| Third parties | **127,432,839** | 104,081,314 |
| Related parties (see Note 22) | **–** | 1,077,567 |
| Security deposits - current | **69,694,588** | 93,019,601 |
| Deferred input VAT - current | **61,011,134** | 68,617,282 |
| Supplies | **52,678,665** | 60,061,392 |
| Prepaid income tax | **25,071,986** | – |
| | **708,520,791** | 540,906,902 |
| Less allowance for impairment losses | **6,265,230** | 41,786 |
| | **₱702,255,561** | ₱540,865,116 |

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

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

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

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

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

Allowance for impairment losses pertains to estimated unrecoverable security deposits and long-outstanding advances to third party trade suppliers.

Movements in the allowance for impairment loss for other current assets follow:

Security deposits

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| At January 1 | **₱–** | ₱– | ₱– |
| Provision for impairment losses (see Note 19) | **6,223,444** | – | – |
| At December 31 | **₱6,223,444** | ₱– | ₱– |

Advances to supplier

| | **2021** | **2020** | 2019 |
|---|---|---|---|
| At January 1 | **₱41,786** | ₱41,786 | ₱5,984,803 |
| Write-off | – | – | (5,943,017) |
| At December 31 | **₱41,786** | ₱41,786 | ₱41,786 |

The Company has directly written off security deposits identified to be unrecoverable amounting to ₱17.44 million in 2021. In addition, the Company has directly written off advances to suppliers amounting to nil in 2021 and 2020 and ₱0.96 million in 2019, respectively. These are recognized under operating expenses in the statements of comprehensive income (see Note 19).

9. **Property and Equipment**

**2021**

| | Land | Machinery and Equipment | Store and Office Equipment | Computer Equipment | Transportation Equipment | Building and Leasehold Improvements | Construction-in-Progress (Note 24) | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At January 1 | **₱45,000,000** | **₱989,153,965** | **₱1,978,811,171** | **₱1,345,720,931** | **₱386,280,889** | **₱2,171,123,080** | **₱1,722,787,774** | **₱8,638,877,810** |
| Additions | **186,169,293** | **359,275,201** | **74,187,455** | **52,869,786** | **3,350,625** | **26,040,851** | **280,694,574** | **982,587,785** |
| Retirements | **–** | **(35,327,454)** | **(122,617,669)** | **(18,628,345)** | **(1,208,432)** | **(618,672)** | **–** | **(178,400,572)** |
| Reclassifications | **–** | **220,464,628** | **38,506,251** | **68,908,006** | **–** | **1,449,662,629** | **(1,777,541,514)** | **–** |
| **At December 31** | **231,169,293** | **1,533,566,340** | **1,968,887,208** | **1,448,870,378** | **388,423,082** | **3,646,207,888** | **225,940,834** | **9,443,065,023** |
| **Less Accumulated Depreciation and Amortization:** | | | | | | | | |
| At January 1 | **–** | **168,343,540** | **1,529,542,223** | **1,036,785,450** | **288,913,552** | **627,128,055** | **–** | **3,650,712,820** |
| Depreciation and amortization (see Notes 18 and 19) | **–** | **104,438,732** | **161,273,010** | **118,957,374** | **50,144,548** | **171,921,823** | **–** | **606,735,487** |
| Retirements | **–** | **(15,392,063)** | **(105,413,548)** | **(16,543,207)** | **(523,178)** | **(1,890,355)** | **–** | **(139,762,351)** |
| Reclassifications | **–** | **5,724,987** | **1,526,193** | **–** | **–** | **(7,251,180)** | **–** | **–** |
| **At December 31** | **–** | **263,115,196** | **1,586,927,878** | **1,139,199,617** | **338,534,922** | **789,908,343** | **–** | **4,117,685,956** |
| **Less: Allowance for impairment loss** | | | | | | | | |
| At January 1 | **–** | **18,119,395** | **13,807,376** | **1,569,386** | **–** | **–** | **–** | **33,496,157** |
| Write-off | **–** | **(18,119,395)** | **(13,807,376)** | **(1,569,386)** | **–** | **–** | **–** | **(33,496,157)** |
| **December 31** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Net Book Value** | **₱231,169,293** | **₱1,270,451,144** | **₱381,959,330** | **₱309,670,761** | **₱49,888,160** | **₱2,856,299,545** | **₱225,940,834** | **₱5,325,379,067** |

2020

| | Land | Machinery and Equipment | Store and Office Equipment | Computer Equipment | Transportation Equipment | Building and Leasehold Improvements | Construction-in-Progress | Total |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At January 1 | ₱– | ₱330,192,298 | ₱2,151,604,305 | ₱1,149,321,715 | ₱396,909,386 | ₱2,417,201,339 | ₱1,496,588,292 | ₱7,941,817,335 |
| Additions | 45,000,000 | 50,246,911 | 172,089,426 | 65,094,099 | 6,692,603 | 49,997,113 | 722,825,297 | 1,111,945,449 |
| Retirements | – | (459,500) | (18,407,867) | (4,015,664) | (176,788) | (391,825,155) | – | (414,884,974) |
| Reclassifications | – | 609,174,256 | (326,474,693) | 135,320,781 | (17,144,312) | 95,749,783 | (496,625,815) | – |
| At December 31 | 45,000,000 | 989,153,965 | 1,978,811,171 | 1,345,720,931 | 386,280,889 | 2,171,123,080 | 1,722,787,774 | 8,638,877,810 |
| Less Accumulated Depreciation and Amortization: | | | | | | | | |
| At January 1 | – | 91,190,110 | 1,409,108,412 | 946,307,112 | 226,664,113 | 568,064,450 | – | 3,241,334,197 |
| Depreciation and amortization (see Notes 18 and 19) | – | 64,171,430 | 143,956,412 | 93,164,315 | 62,769,982 | 133,382,115 | – | 497,444,254 |
| Retirements | – | (392,453) | (15,560,192) | (2,686,446) | (177,951) | (69,248,589) | – | (88,065,631) |
| Reclassifications | – | 13,374,453 | (7,962,409) | 469 | (342,592) | (5,069,921) | – | – |
| At December 31 | – | 168,343,540 | 1,529,542,223 | 1,036,785,450 | 288,913,552 | 627,128,055 | – | 3,650,712,820 |
| Less: Allowance for impairment loss (see Note 19) | – | 18,119,395 | 13,807,376 | 1,569,386 | – | – | – | 33,496,157 |
| Net Book Value | ₱45,000,000 | ₱802,691,030 | ₱435,461,572 | ₱307,366,095 | ₱97,367,337 | ₱1,543,995,025 | ₱1,722,787,774 | ₱4,954,668,833 |

In December 2021, various stores in Visayas were hit by typhoon Odette. The net book value of the damaged fixed assets amounted to ₱0.49 million. This was included under other income (charges) section of the statement of comprehensive income (see Note 17).

In September 2020, the Company closed two stores and derecognized the related leasehold improvements with a carrying value of ₱322.29 million. This was included under "Loss on stores closure - net" in the Operating Expenses section of the statements of comprehensive income (see Note 19). Additionally, the Company recognized provision for impairment loss for the remaining immovable property and equipment of the closed stores with a carrying amount of ₱33.50 million under "Provision for impairment of nonfinancial assets" in the Operating Expenses section of the statement of comprehensive income (see Note 19). In 2021, the Company sold the aforementioned immovable property and equipment and recognized an income of ₱6.33 million under other income (charges) in the statement of comprehensive income. Consequently, the allowance for impairment loss recognized in 2020 was written-off.

oThe Company retired other property and equipment from various stores with carrying values of ₱4.65 million, ₱4.53 million and ₱3.00 million in 2021, 2020 and 2019, respectively. This was included under "Others" in the Other (Charges) Income section of the statements of comprehensive income (see Note 17). Construction-in-progress pertains to ongoing construction of building and leasehold improvement on stores, installation and related activities of certain leasehold improvements or other equipment necessary to prepare it for use. These are located in various locations and are transferred to the related property and equipment account once construction is completed and is ready for service.

Borrowing costs from loans payable capitalized to construction in progress amounted to ₱5.02 million and nil in 2021 and 2020, respectively (see Note 13).

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2021 and 2020.

The Company has contractual purchase commitments related to construction-in-progress amounting to ₱289.82 million and ₱178.59 million as of December 31, 2021 and 2020, respectively.

10. **Other Noncurrent Assets**

| | **2021** | 2020 |
|---|---|---|
| Deposits | **₱290,489,082** | ₱454,385,733 |
| Advances to nontrade suppliers | | |
| Third parties | **101,940,328** | 121,457,118 |
| Related parties (see Note 22) | **39,167,965** | 34,835,265 |
| Deferred input VAT | **82,226,233** | 118,624,390 |
| | **513,823,608** | 729,302,506 |
| Less allowance for impairment loss (see Note 19) | **8,772,248** | 8,772,248 |
| | **₱505,051,360** | ₱720,530,258 |

Deposits consist of the following:

| | **2021** | 2020 |
|---|---|---|
| Security deposits | **₱154,750,728** | ₱132,467,084 |
| Deposit to utility companies* | **92,338,123** | 102,693,700 |
| Advance rentals | **43,400,231** | 46,914,349 |
| Deposit for future land acquisition | **–** | 172,310,600 |
| | **₱290,489,082** | ₱454,385,733 |

**Deposit to utility companies is presented at cost since the timing and amounts of future cash flows are linked to the termination of the contract which cannot be reasonably and reliably estimated.*

Accretions of the security deposits amounted to ₱0.88 million, ₱7.45 million and ₱7.14 million in 2021, 2020 and 2019, respectively and are presented under “Interest and other income” in the statements of comprehensive income (see Note 17).

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

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

Allowance for impairment losses pertains to long outstanding advances to nontrade suppliers and security deposits. In 2020, allowance for impairment loss amounting to ₱28.20 million as a result of the closure of a non-performing store in 2018 was written-off.

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

<u>Security deposits</u>

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| At January 1 | **₱–** | ₱28,168,824 | ₱28,168,824 |
| Write-off | **–** | (28,168,824) | – |
| At December 31 | **₱–** | ₱– | ₱28,168,824 |

Advances to non-trade supplier

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| At January 1 | **₱8,772,248** | **₱8,772,248** | ₱20,875,102 |
| Provision for impairment loss (see Note 19) | – | – | 6,226,120 |
| Write-off | – | – | (18,328,974) |
| December 31 | **₱8,772,248** | ₱8,772,248 | ₱8,772,248 |

11. **Trade and Other Payables**

| | 2021 | 2020 |
|---|---|---|
| Trade | | |
| Third parties | **₱2,283,372,264** | ₱2,803,894,480 |
| Related parties (see Note 22) | **23,897,296** | 17,379,792 |
| Nontrade | | |
| Third parties | **365,464,453** | 933,812,743 |
| Related parties (see Note 22) | **20,532,248** | 6,528,437 |
| Accrued expenses | **383,657,912** | 433,171,456 |
| Credit cash bonds | **250,884,882** | 289,691,212 |
| Taxes payable | **52,356,238** | 55,335,894 |
| Others | **156,795,314** | 102,518,380 |
| | **₱3,536,960,607** | ₱4,642,332,394 |

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

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

Accrued expenses consist of:

| | 2021 | 2020 |
|---|---|---|
| Suppliers and contractors | **₱129,824,159** | ₱142,096,805 |
| Utilities | **71,923,516** | 68,486,286 |
| Short-term rentals | **59,945,719** | 69,640,659 |
| Marketing-related cost | **19,066,888** | 23,106,163 |
| Professional fees | **6,728,939** | 11,441,838 |
| Other accruals | **96,168,691** | 118,399,705 |
| | **₱383,657,912** | ₱433,171,456 |

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

Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This will be refunded if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate ranging from 1%–6% based on accumulated cash bond and purchases volume. Finance cost included in profit or loss pertaining to cash bonds amounted to ₱10.74 million, ₱12.13 million and ₱15.43 million in 2021, 2020 and 2019, respectively. Interest incurred from cash bonds are settled through deduction from the Company's receivables from these credit account holders (see Note 17).

Taxes payable pertains to amount of taxes withheld by the Company on income payments yet to be remitted to the government.

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

## 12. Contract Liabilities

| | 2021 | 2020 |
|---|---|---|
| Gift check outstanding | **₱42,395,434** | ₱38,111,342 |
| Accrued customer loyalty reward | **30,129,692** | 25,340,315 |
| Stored value cards | **27,368,264** | 18,682,083 |
| | **₱99,893,390** | ₱82,133,740 |

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

The rollforward analysis of this account follows:

| | 2021 | 2020 |
|---|---|---|
| At January 1 | **₱82,133,740** | ₱103,525,837 |
| Deferred during the year | **1,494,046,141** | 1,417,032,154 |
| Recognized as revenue during the year | **(1,476,286,491)** | (1,438,424,251) |
| At December 31 | **₱99,893,390** | ₱82,133,740 |

## 13. Loans Payable

| | 2021 | 2020 |
|---|---|---|
| Short-term bank loans with floating interest rates ranging from 2.75%–3.00% per annum | **₱1,000,000,000** | ₱1,500,000,000 |
| Long-term bank loans with fixed interest rate of 4.0% per annum | **500,000,000** | – |
| | **1,500,000,000** | 1,500,000,000 |
| Less current portion of loans payable | **1,000,000,000** | 1,500,000,000 |
| | **500,000,000** | – |
| Less unamortized debt issue cost | **3,330,090** | – |
| Noncurrent portion of loans payable | **₱496,669,910** | ₱– |

*Short-term bank loans*
The Company availed short-term notes payable from local banks in an aggregate amount of ₱800.00 million and ₱1,500.00 million in 2021 and 2020, respectively, with floating interest rates ranging from 2.75%–3.00% per annum. These are payable within twelve months after the reporting date and were availed for additional working capital requirements. The Company paid short-term loans in 2021 amounting to ₱1,300.00 million.

Outstanding balance of short-term bank loans amounted to ₱1,000.00 million and ₱1,500.00 million as of December 31, 2021 and 2020, respectively.

*Long-term bank loans*
In March 2021, the Company availed of a long-term loan of ₱500.00 million payable in thirty-two equal quarterly installments of ₱15.63 million commencing on March 30, 2023 to March 28, 2031. The loan bears a nominal interest rate of 4.0% per annum. These were availed to finance construction of new store buildings.

The Company's long-term debt consists of:

| | **2021** | 2020 |
|---|---|---|
| 10-year loan due on March 28, 2031 | **₱500,000,000** | ₱– |
| Less unamortized debt issue cost | **3,330,090** | – |
| | **₱496,669,910** | ₱– |

The Company has no collateral, no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2021.

Interest expense from bank loans amounted to ₱53.30 million, ₱21.95 million and ₱1.91 million in 2021, 2020 and 2019, respectively (see Notes 9 and Note 17).

The movement of the unamortized debt issue cost follows:

| | **2021** | 2020 |
|---|---|---|
| At January 1 | **₱–** | ₱– |
| Additions | **3,750,000** | |
| Amortization | **(419,910)** | – |
| At December 31 | **₱3,330,090** | ₱– |

The repayment schedule of Company's long-term debt is as follows:

| | **2021** | 2020 |
|---|---|---|
| 2022 | **₱–** | ₱– |
| 2023 | **46,875,000** | – |
| 2024 | **62,500,000** | – |
| 2025 | **62,500,000** | – |
| 2026-2031 | **328,125,000** | – |
| | **₱500,000,000** | ₱– |

## 14. **Other Noncurrent Liabilities**

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

Other noncurrent liabilities as of December 31, 2021 and 2020 amounted to ₱17.13 million and ₱5.62 million, respectively (see Notes 24 and 27).

## 15. **Equity**

Capital Stock
As of December 31, 2021 and 2020, the Company's common stock consists of:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| Common stock - ₱1.00 par value | | | | |
| Authorized | **10,000,000,000** | **₱10,000,000,000** | 10,000,000,000 | ₱10,000,000,000 |
| Issued | **3,429,375,000** | **3,429,375,000** | 3,429,375,000 | 3,429,375,000 |
| Outstanding, beginning of year | **3,429,375,000** | **3,429,375,000** | 3,429,375,000 | 3,429,375,000 |
| Less treasury shares | **(73,379,000)** | **(102,572,930)** | – | – |
| Outstanding, end of year | **3,355,996,000** | **3,326,802,070** | 3,429,375,000 | 3,429,375,000 |

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

As of December 31, 2021 and 2020, the Company has 24 and 23 existing shareholders, respectively.

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

Treasury shares
On January 22, 2021, the BOD of the Company has approved the implementation of a share buyback program of up to ₱300.00 million worth of the Company's common shares to be taken from the Company's existing cash (without using the IPO proceeds) and supported by the unrestricted retained earnings.

In 2021, the Company has bought back from the market a total of 73,379,000 shares or ₱102.57 million. These treasury shares are recorded at cost.

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, 2021 and 2020.

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

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

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, 2021 amounted to ₱1,656.31 million.

The retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2021 and 2020. The Company considers equity as capital excluding remeasurement effects on defined benefit obligation. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

| | **2021** | 2020 |
|---|---|---|
| Capital stock | **₱3,429,375,000** | ₱3,429,375,000 |
| Additional paid-in capital | **2,455,542,149** | 2,455,542,149 |
| Retained earnings | **2,371,901,941** | 2,690,003,170 |
| Treasury stock | **(102,572,930)** | – |
| | **₱8,154,246,160** | ₱8,574,920,319 |

## 16. **Revenue from Contracts with Customers**

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Net sales | **₱31,211,348,935** | ₱31,286,312,987 | ₱36,790,177,798 |
| Other income (see Note 17): | | | |
| Others | **20,314,671** | 30,834,628 | 69,168,785 |
| | **₱31,231,663,606** | ₱31,317,147,615 | ₱36,859,346,583 |

The following table disaggregates the Company's net sales by geographical markets and major goods or service lines for the year ended December 31, 2021, 2020 and 2019:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Geographical markets: | | | |
| Luzon | **₱11,634,257,160** | ₱11,456,946,134 | ₱14,635,972,380 |
| Visayas | **19,577,091,775** | 19,829,366,853 | 22,154,205,418 |
| Total revenue from contracts with customers from net sales | **₱31,211,348,935** | ₱31,286,312,987 | ₱36,790,177,798 |
| | | | |
| Major goods/service lines: | | | |
| Food retail | **₱24,376,405,905** | ₱24,434,738,268 | ₱24,160,819,141 |
| General merchandise | **6,834,943,030** | 6,851,574,719 | 12,629,358,657 |
| Total revenue from contracts with customers from net sales | **₱31,211,348,935** | ₱31,286,312,987 | ₱36,790,177,798 |

17. **Other Income (Charges)** - Net

Interest and other income

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Casualty loss from typhoon Odette (see Notes 7 and 9) | **(₱34,387,035)** | ₱– | ₱– |
| Interest income (see Notes 4, 5 and 10) | **29,076,640** | 50,751,483 | 101,905,155 |
| Scrap sales (see Note 16) | **16,859,922** | 4,932,774 | 7,938,388 |
| Gain on lease modification (Note 24) | **4,830,438** | 84,463,838 | – |
| Foreign currency exchange gain (loss) | **2,761,482** | (6,164,814) | (8,451,855) |
| Gain on insurance claims - net | – | 104,364,149 | 538,743,310 |
| Others (Notes 9 and 16) | **20,314,671** | 30,834,628 | 69,168,785 |
| | **₱39,456,118** | ₱269,182,058 | ₱709,303,783 |

Casualty loss from typhoon Odette pertains to cost of inventories and net book value of properties damaged last December 16, 2021 amounting to ₱33.89 million and ₱0.49 million, respectively. The Company already filed insurance claims for damages caused by the typhoon.

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

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

Gain on insurance claims pertains to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims in relation to the 2018 fire incident.

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

<u>Finance costs</u>

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Finance cost on lease liabilities (see Note 24) | **₱410,445,495** | ₱478,109,609 | ₱590,149,819 |
| Interest expense from bank loans (see Note 13) | **48,275,142** | 21,945,833 | 1,906,565 |
| Interest expense on cash bond (see Note 11) | **10,735,282** | 12,127,998 | 15,427,012 |
| | **₱469,455,919** | ₱512,183,440 | ₱607,483,396 |

## 18. **Cost of Sales**

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Cost of merchandise sold (see Note 7) | **₱25,287,751,375** | ₱24,885,943,294 | ₱28,554,688,612 |
| Others (see Notes 9, 19 and 20) | **48,606,374** | 74,230,573 | 37,855,425 |
| | **₱25,336,357,749** | ₱24,960,173,867 | ₱28,592,544,037 |

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

Depreciation and amortization charged to cost of sales amounted to ₱0.05 million, ₱0.15 million, and ₱0.64 million in 2021, 2020 and 2019, respectively.

## 19. **Operating Expenses**

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Personnel cost (see Note 20) | **₱1,646,863,783** | ₱1,983,235,812 | ₱2,283,189,777 |
| Rental (see Notes 22 and 24) | **802,565,292** | 584,216,674 | 492,153,089 |
| Light, water and communication | **758,921,442** | 690,812,973 | 836,149,002 |
| Depreciation and amortization of property and equipment (see Note 9) | **606,680,884** | 497,297,401 | 480,256,688 |
| Depreciation and amortization of right-of-use assets - net (see Note 24) | **518,263,490** | 859,437,309 | 1,241,452,884 |

*(Forward)*

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Taxes and licenses | **₱359,305,821** | ₱450,029,872 | ₱420,162,088 |
| Contracted services (see Note 22) | **336,848,942** | 340,482,025 | 359,636,298 |
| Repairs and maintenance | **199,703,664** | 227,485,633 | 282,022,862 |
| Supplies | **126,591,620** | 158,615,888 | 213,340,903 |
| Insurance | **112,398,330** | 105,559,758 | 95,196,363 |
| Subscriptions | **111,916,552** | 76,725,647 | 66,698,919 |
| Advertising | **106,311,345** | 108,373,223 | 191,018,105 |
| Professional fees | **89,934,377** | 85,032,406 | 141,486,717 |
| Commission | **89,370,431** | 86,484,112 | 101,935,047 |
| Write-off of assets (see Notes 6 and 8) | **33,508,900** | 4,309,328 | 4,662,102 |
| Transportation and travel | **20,442,148** | 84,235,819 | 102,071,703 |
| Provision for: | | | |
| Impairment of receivables (see Note 6) | **7,376,230** | 19,982,920 | – |
| Impairment of nonfinancial assets (see Notes 8, 9, 10 and 24) | **6,223,444** | 133,358,471 | 6,226,120 |
| Loss on stores closure - net | **–** | 217,449,025 | – |
| Others | **29,243,540** | 62,375,554 | 72,527,696 |
| | **₱5,962,470,235** | ₱6,775,499,850 | ₱7,390,186,363 |

Depreciation and amortization of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions amounting to ₱187.47 million and ₱228.16 million in 2021 and 2020, respectively (see Note 24).

Loss on stores closure in 2020 pertains to loss on retirement of property and equipment as a result of permanent stores closure amounting to ₱322.29 million (see Note 9), net of gain on pre-termination of lease contract amounting to ₱104.84 million (see Note 24).

Write-off of assets pertains to receivables, unrecoverable security deposits and advances to suppliers where there is no reasonable expectation of recovery and long outstanding advances to supplier.

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

Others pertain to representation, entertainment, donations and contributions.

## 20. **Personnel Cost**

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Salaries and wages | **₱1,360,720,226** | ₱1,603,655,194 | ₱1,925,955,546 |
| Retirement benefits costs (Note 21) | **68,241,526** | 88,378,081 | 58,373,098 |
| Other employee benefits | **265,731,179** | 347,405,228 | 362,643,778 |
| | **₱1,694,692,931** | ₱2,039,438,503 | ₱2,346,972,422 |

Personnel cost that were recognized as cost of sales amounted to ₱19.78 million, ₱20.92 million and ₱27.04 million in 2021, 2020 and 2019, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱28.05 million, ₱35.28 million and ₱36.74 million in 2021, 2020 and 2019, respectively (see Note 9).

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

## 21. **Retirement Benefit Obligation**

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

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current service cost | **₱45,065,091** | ₱39,054,536 | ₱28,111,567 |
| Interest cost | **22,544,320** | 27,033,643 | 30,261,531 |
| Past service cost: curtailment | **632,115** | 22,289,902 | – |
| | **₱68,241,526** | ₱88,378,081 | ₱58,373,098 |

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Remeasurement (loss) gain due to: | | | |
| Changes in financial assumptions | **₱65,655,522** | (₱79,088,409) | (₱62,890,118) |
| Experience adjustments | **14,857,116** | 15,837,781 | 10,122,832 |
| | **₱80,512,638** | (₱63,250,628) | (₱52,767,286) |

The rollforward analysis of the retirement benefit obligation follow:

| | **2021** | 2020 |
|---|---|---|
| At January 1 | **₱563,608,003** | ₱500,623,022 |
| Current service cost | **45,065,091** | 39,054,536 |
| Interest cost | **22,544,320** | 27,033,643 |
| Past service cost - curtailment | **632,115** | 22,289,902 |
| Benefits paid (retirement) | **(4,825,231)** | (14,685,784) |
| Benefits paid (retrenchment) | **(9,663,067)** | (73,957,944) |
| Remeasurement loss (gain) due to: | | |
| Changes in financial assumptions | **(65,655,522)** | 79,088,409 |
| Experience adjustments | **(14,857,116)** | (15,837,781) |
| At December 31 | **₱536,848,593** | ₱563,608,003 |

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Salary increase rate | **4.00%** | 4.00% | 4.00% |
| Discount rate | **5.10%** | 4.00% | 5.40% |

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

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Increase (decrease)** | **Net retirement benefit liability** | Increase (decrease) | Net retirement benefit liability |
| Discount Rates | **+1.0%** | **(₱49,019,360)** | +1.0% | (₱58,480,640) |
| | **–1.0%** | **59,707,985** | –1.0% | 70,441,758 |
| Salary increase rate | **+1.0%** | **₱56,714,745** | +1.0% | ₱66,468,868 |
| | **–1.0%** | **(47,399,337)** | –1.0% | (56,363,300) |

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:

| | **2021** | 2020 |
|---|---|---|
| 1 year and less | **₱–** | ₱– |
| More than one year to 5 years | **213,218,476** | 196,488,026 |
| More than 5 years to 10 years | **232,591,469** | 181,637,772 |
| More than 10 years to 15 years | **332,044,197** | 349,244,236 |
| More than 15 years to 20 years | **2,266,652,956** | 2,538,882,647 |
| | **₱3,044,507,098** | ₱3,266,252,681 |

The weighted average duration of the defined benefit obligation is 14 years in 2021 and 2020.

## 22. Related Party Transactions

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

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

The significant related party transactions and outstanding balances as of and for the years ended December 31, 2021 and 2020 are as follows:

**December 31, 2021**

| | Amount/Volume | Outstanding | Terms and Conditions |
|---|---|---|---|
| *Entities Under Common Control* | | | |
| Advances and rental income (see Note 6; c) | ₱72,241,236 | ₱21,346,974 | Noninterest-bearing and due in 30 days, not impaired |
| Advances to suppliers (see Notes 8 and 10; d) | 652,001,157 | 233,691,855 | Noninterest-bearing and for application within 30 days, not impaired |
| Due from related parties | | ₱255,038,829 | |

| | Amount/Volume | Outstanding | Terms and Conditions |
|---|---|---|---|
| *Parent Company (VDC)* | | | |
| Lease liabilities (see Note 24; b) | ₱6,680,102 | (₱75,128,391) | Noninterest-bearing and payable in 30 days, unsecured |
| Rent expense (see Note 11; b) | 940,128,962 | (9,910,811) | Noninterest-bearing and for application within 30 days, unsecured |
| Advances (see Note 11; a) | 5,972,681 | (2,168,547) | Noninterest-bearing and due in 30 days, unsecured |
| Management fee (see Note 11; e) | 57,988,660 | – | Noninterest-bearing and payable in 30 days, unsecured |
| *Entities Under Common Control* | | | |
| Purchase of goods (see Note 11; d) | 96,749,984 | (23,897,296) | Noninterest-bearing and payable in 30 days, unsecured |
| Purchases of services and rent expense (see Note 11; c) | 117,982,206 | (8,452,890) | Noninterest-bearing and payable in 30 days, unsecured |
| Due to related parties | | (₱119,557,935) | |

December 31, 2020

| | Amount/Volume | Outstanding | Terms and Conditions |
|---|---|---|---|
| *Parent Company (VDC)* | | | |
| Advances (see Note 6; a) | ₱16,219,314 | ₱2,115,219 | Noninterest-bearing and due in 30 days, not impaired |
| Prepayments on rentals (see Note 8; b) | 985,159,210 | 1,077,567 | Noninterest-bearing and for application within 30 days, not impaired |
| *Entities Under Common Control* | | | |
| Advances and rental income (see Note 6; c) | 75,850,972 | 40,303,595 | Noninterest-bearing and due in 30 days, not impaired |
| Sale of goods (see Note 6; d) | 447,063 | 362,203 | Noninterest-bearing and due in 30 days, not impaired |
| Advances to suppliers (see Notes 8 and 10; d) | 867,391,440 | 152,657,766 | Noninterest-bearing and for application within 30 days, not impaired |
| Due from related parties | | ₱196,516,350 | |

| | Amount/Volume | Outstanding | Terms and Conditions |
|---|---|---|---|
| *Parent Company (VDC)* | | | |
| Lease liabilities (see Note 24; b) | ₱43,147,196 | (₱189,605,821) | Noninterest-bearing and payable in 30 days, unsecured |
| Management fee (see Note 11; e) | 44,226,804 | – | Noninterest-bearing and payable in 30 days, unsecured |
| *Entities Under Common Control* | | | |
| Purchase of goods (see Note 11; d) | 133,602,494 | (17,379,792) | Noninterest-bearing and payable in 30 days, unsecured |
| Purchases of services and rent expense (see Note 11; c) | 75,228,252 | (6,528,437) | Noninterest-bearing and payable in 30 days, unsecured |
| Due to related parties | | (₱213,514,050) | |

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

a. Advances to VDC pertain to expenses paid by the Company on behalf of VDC and vice versa.
b. Rentals from leases for the Company's store spaces and warehouses. The Company recognized "Lease liabilities" for fixed rent and "Prepayments" under Other Current Assets representing advance payments to the lessor to be applied to the subsequent billing and "Trade and other payables" for variable rent.
c. The Company has receivables and payables pertaining to rental transactions in the Company's stores. These are noninterest-bearing and are collectible within 30 days.
d. The Company has short-term noninterest-bearing receivables and payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
e. The Company entered into an agreement with VDC for legal and other services. Management fee is lodged in "Contracted services" under "Operating expenses" in the statements of comprehensive income.

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

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱662.07 million and ₱906.03 million in 2021 and 2020, respectively, which earn interest based on prevailing market interest rates amounting to ₱8.38 million, ₱25.97 million and ₱46.07 million in 2021, 2020 and 2019, respectively.

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Short-term employee benefits | **₱114,053,170** | ₱128,968,021 | ₱122,494,445 |
| Post-employment benefits | **6,721,883** | 8,565,056 | 2,611,029 |

There are no amounts due to or due from members of key management as of December 31, 2021 and 2020.

The Company has not recognized any impairment losses on amounts due from related parties in 2021 and 2020. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

## 23. Income Taxes

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current | | | |
| MCIT/RCIT | **₱28,099,188** | ₱134,045,862 | ₱513,211,025 |
| Final | **6,432,547** | 9,840,326 | 16,672,349 |
| | **34,531,735** | 143,886,188 | 529,883,374 |
| Deferred | **(61,442,629)** | (239,813,226) | (140,450,099) |
| | **(₱26,910,894)** | (₱95,927,038) | ₱389,433,275 |

The Company's provision for current income tax in 2021 and 2020 represents MCIT. Provision for current income tax in 2019 represents RCIT.

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

| | **2021** | 2020 |
|---|---|---|
| Lease liabilities (see Note 24) | **₱1,393,738,798** | ₱1,806,585,082 |
| Excess MCIT | **162,145,050** | 134,045,863 |
| Retirement benefit obligation (see Note 21) | **134,212,148** | 169,082,401 |
| NOLCO | **37,964,065** | 44,562,107 |
| Provision for decline in value of inventories (see Note 7) | **16,385,473** | 13,639,580 |
| Allowance for impairment of receivables (see Note 6) | **8,901,505** | 9,478,600 |
| Casualty loss from Typhoon Odette (see Note 17) | **7,920,243** | – |
| Contract liability from customer loyalty program (see Note 12) | **7,532,423** | 7,602,094 |
| Allowance for impairment of property and equipment (see Note 9) | **3,759,369** | 10,048,847 |
| Unamortized debt issuance cost (see Note 13) | **(832,522)** | – |
| Allowance for impairment of advances to suppliers (see Note 10) | **–** | 2,644,210 |
| Provisions (see Note 19) | **–** | 964,997 |
| Nontaxable excess of insurance proceeds on damaged fixed assets | **–** | (25,265,830) |
| Right-of-use assets, including provision for impairment losses (see Note 24) | **(1,165,095,622)** | (1,605,324,022) |
| | **₱606,630,930** | ₱568,063,929 |

The Company recognized net deferred tax liability in 2021 amounting to ₱22.88 million and net deferred tax asset of ₱18.98 million in 2020, which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

Details of the Company's excess MCIT over RCIT as of December 31, 2021 and 2020 follow:

| Year Incurred | Expiry Date | At December 31, 2020 | Addition | Expired | At December 31, 2021 |
|---|---|---|---|---|---|
| 2020 | December 31, 2023 | ₱100,534,397 | ₱– | ₱– | ₱100,534,397 |
| 2021 | December 31, 2024 | – | 61,610,653 | – | 61,610,653 |
| | | ₱100,534,397 | ₱61,610,653 | ₱– | ₱162,145,050 |

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

As of December 31, 2021 and 2020, the Company has incurred NOLCO in taxable years 2021 and 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

| Year Incurred | Availment Period | At December 31, 2020 | Addition | Expired | At December 31, 2021 |
|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱151,336,387 | ₱– | ₱– | ₱151,336,387 |
| 2021 | 2022-2026 | – | 519,876 | – | 519,876 |
| | | ₱151,336,387 | ₱519,876 | ₱– | ₱151,856,263 |

*Republic Act (RA) 11534 or the CREATE Act*

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, RCIT rate is reduced from 30%–25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%;
- Minimum corporate income tax MCIT rate reduced from 2%–1% of gross income effective July 1, 2020 to June 30, 2023; and
- Imposition of improperly accumulated earnings tax is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. Accordingly, current and deferred income taxes as of and for the year ended December 31, 2020 were still computed and measured using the applicable income tax rates as of December 31, 2020 (30% RCIT and 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower RCIT and MCIT of 25% and 1%, respectively, effective July 1, 2020. Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated MCIT for the year ended December 31, 2020 is 1.50%.

The passage of CREATE Act into law on March 26, 2021 resulted to the measurement of the provision for current and deferred income tax using the revised income tax rate of 25% for the three months ended March 31, 2021. Accordingly, the differences in the amount of current and deferred income tax recognized in the books using the old income tax rate and the amount that should be recorded using the revised income tax rate under CREATE Act as of December 31, 2020, were adjusted in the December 31, 2021 balances of the deferred income tax and other comprehensive income, as follows:

| | Using Revised Tax Rate | Using Old Tax Rate | Effect in Current Year |
|---|---|---|---|
| **Net Income** | | | |
| Prior Year MCIT Payable | ₱100,534,397 | ₱134,045,862 | (₱33,511,465) |
| Prior Year Deferred Tax Assets | 449,177,794 | 551,579,130 | 102,401,336 |
| | | | **68,889,871** |
| **Other Comprehensive Income** | | | |
| Prior Year Deferred Tax Assets | 13,737,333 | 16,484,799 | **(2,747,466)** |

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Provision for income tax computed at statutory rate | **(₱86,253,031)** | (₱163,655,589) | ₱349,523,401 |
| Tax effects of: | | | |
| Nondeductible expenses | **11,869,918** | 70,792,980 | 25,648,551 |
| Income subjected to final tax | **(362,793)** | (3,064,429) | (11,004,507) |
| Nontaxable excess of insurance proceeds on damaged fixed assets | **(21,054,858)** | – | 25,265,830 |
| Remeasurements to prior period taxes relating to changes in tax rates | **68,889,870** | – | – |
| | **(₱26,910,894)** | **(₱95,927,038)** | **₱389,433,275** |

24. **Lease Commitments**

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

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

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

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

**December 31, 2021**

| | Land | Building | IT Equipment | Others | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At January 1, 2021** | **₱1,776,088,593** | **₱5,133,348,214** | **₱90,985,965** | **₱–** | **₱7,000,422,772** |
| **Additions** | **–** | **36,484,176** | **–** | **–** | **36,484,176** |
| **Lease modification** | **–** | **(114,016,662)** | **–** | **–** | **(114,016,662)** |
| **Asset retirement** | **(15,982,295)** | **(53,871,820)** | **(90,985,965)** | **–** | **(160,840,080)** |
| **At December 31, 2021** | **1,760,106,298** | **5,001,943,908** | **–** | **–** | **6,762,050,206** |
| | | | | | |
| **Accumulated Depreciation and Amortization** | | | | | |
| **At January 1, 2021** | **539,250,489** | **867,248,983** | **85,888,872** | **–** | **1,492,388,344** |
| **Depreciation** | **277,196,870** | **429,427,633** | **5,097,093** | **–** | **711,721,596** |
| **Lease modification** | **–** | **(81,137,390)** | **–** | **–** | **(81,137,390)** |
| **Asset retirement** | **(15,982,295)** | **(53,871,820)** | **(90,985,965)** | **–** | **(160,840,080)** |
| **At December 31, 2021** | **800,465,064** | **1,161,667,406** | **–** | **–** | **1,962,132,470** |
| **Less allowance for impairment losses** | **–** | **99,862,314** | **–** | **–** | **99,862,314** |
| **Net Book Value** | **₱959,641,234** | **₱3,740,414,188** | **₱–** | **₱–** | **₱4,700,055,422** |

December 31, 2020

| | Land | Building | IT Equipment | Others | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| At January 1, 2020 | ₱1,671,903,900 | ₱7,023,538,757 | ₱102,522,596 | ₱1,213,834 | ₱8,799,179,087 |
| Additions | – | 104,654,288 | – | – | 104,654,288 |
| Lease modification | 104,184,693 | (1,089,643,091) | (11,536,631) | – | (996,995,029) |
| Asset retirement | – | (905,201,740) | – | (1,213,834) | (906,415,574) |
| At December 31, 2020 | 1,776,088,593 | 5,133,348,214 | 90,985,965 | – | 7,000,422,772 |
| | | | | | |
| Accumulated Depreciation and Amortization | | | | | |
| At January 1, 2020 | 265,700,613 | 958,408,226 | 61,545,082 | 728,300 | 1,286,382,221 |
| Depreciation | 273,549,876 | 803,127,725 | 24,343,790 | 485,534 | 1,101,506,925 |
| Lease modification | – | (820,594,360) | – | – | (820,594,360) |
| Asset retirement | – | (73,692,608) | – | (1,213,834) | (74,906,442) |
| At December 31, 2020 | 539,250,489 | 867,248,983 | 85,888,872 | – | 1,492,388,344 |
| Less allowance for impairment losses | – | 99,862,314 | – | – | 99,862,314 |
| Net Book Value | ₱1,236,838,104 | ₱4,166,236,917 | ₱5,097,093 | ₱– | ₱5,408,172,114 |

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

The depreciation expense of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions and capitalized depreciation expense of right-of-use assets to property and equipment under construction totaling amounting to ₱193.46 million and ₱242.07 million in 2021 and 2020, respectively (see Note 9).

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

The Company entered into various agreements to revise existing lease agreements from fixed payments to purely variable rent payments with its lessors which were accounted for by the Company as lease modifications resulting to a gain amounting to ₱4.83 million and ₱84.46 million in 2021 and 2020, respectively.

The following are the amounts recognized in statements of income:

| | **2021** | 2020 |
|---|---|---|
| Depreciation expense of right-of-use assets - net (see Note 19) | **₱518,263,490** | ₱859,437,309 |
| Variable lease payments (see Note 19)* | **721,567,507** | 515,271,952 |
| Finance cost on lease liabilities (see Note 17) | **410,445,495** | 478,109,609 |
| Expenses relating to short-term leases (see Note 19)* | **80,997,785** | 68,944,722 |
| Gain on lease modification (see Note 17) | **(4,830,438)** | (84,463,838) |
| Total amount recognized in statement of income | **₱1,726,443,839** | ₱1,837,299,754 |

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

The rollforward analysis of lease liabilities follows:

| | **2021** | 2020 |
|---|---|---|
| At January 1 | **₱6,021,950,271** | ₱7,819,087,830 |
| Finance cost (see Note 17) | **418,922,032** | 510,956,120 |
| Additions | **36,484,176** | 90,602,317 |
| Payments | **(677,225,703)** | (1,001,989,894) |
| Lease modification and waived rentals | **(225,175,583)** | (1,396,706,102) |
| At December 31 | **₱5,574,955,193** | ₱6,021,950,271 |

In 2021 and 2020, the Company capitalized finance cost on lease liabilities to property and equipment under construction amounting to ₱8.48 million and ₱32.85 million, respectively (see Note 9).

The Company had total cash outflows for leases of ₱1,479.80 million and ₱1,586.21 million in 2021 and 2020, respectively.

Classification of lease liabilities is as follows:

| | **2021** | 2020 |
|---|---|---|
| Current portion | **₱212,043,486** | ₱479,564,316 |
| Noncurrent portion | **5,362,911,707** | 5,542,385,955 |
| | **₱5,574,955,193** | ₱6,021,950,271 |

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

| | **2021** | 2020 |
|---|---|---|
| Within one year | **₱596,627,470** | ₱847,590,780 |
| More than one year but not more than five years | **2,406,926,886** | 2,477,403,559 |
| More than five years | **8,315,514,643** | 8,808,780,064 |
| | **₱11,319,068,999** | ₱12,133,774,403 |

*Company as lessor*
The Company entered into lease agreements with tenants for the use of space in the Company's stores. These lease agreements have terms ranging from one to four years and does not involve real properties. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market rate conditions.

Tenants are required to pay for security deposits, subject to adjustment if minimum rent increases; refundable at the end of the lease term, after deducting the amount of damages to the leased premises and unpaid charges, if any. Security deposits amounted to ₱79.55 million and ₱63.32 million as of December 31, 2021 and 2020, respectively (see Notes 11 and 14). Rental income amounted to ₱172.47 million, ₱146.84 million and ₱255.81 million in 2021, 2020 and 2019, respectively.

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

| | **2021** | 2020 |
|---|---|---|
| Within one year | **₱27,181,086** | ₱32,449,614 |
| More than one year but not more than five years | **40,974,727** | 56,046,864 |
| More than five years | **2,611,655** | – |
| | **₱70,767,468** | ₱88,496,478 |

## 25. **Earnings (Loss) Per Share**

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Net income (loss) | **(₱318,101,229)** | (₱449,591,591) | ₱775,644,731 |
| Weighted-average number of common shares (Note 15) | **3,401,269,747** | 3,429,375,000 | 3,429,375,000 |
| Basic/Diluted Earnings (Loss) Per Share | **(₱0.09)** | (₱0.13) | ₱0.23 |

There are no potentially dilutive common shares as of December 31, 2021, 2020 and 2019.

26. **Segment Reporting**

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

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

The Company conducts its operations through the following store formats:

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

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

*Hypermarkets*
Hypermarkets consist of "superstores" which is a combination of supermarket and department store which offer a wide range of product including full grocery lines and general merchandise. The Company does not report its results based on geographical segments. The Company has no significant customer which contributes 10% or more to the revenues of the Company.

27. **Financial Instruments**

Fair Value of Financial Instruments
As of December 31, 2021 and 2020, the Company has no financial asset and liability carried at fair value.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Financial Assets
Due to the short-term nature of the transaction, the fair values of cash and cash equivalents, short-term investments, trade receivables, rentals and receivable from related parties, accrued interest receivable and security deposits under "Other current assets" approximate the carrying values at yearend.

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

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Security deposits, net of allowance for impairment losses (see Note 10) | **₱247,088,851** | **₱236,455,754** | ₱235,160,784 | ₱200,634,061 |

The fair value of security deposits lodged in "Deposits" under "Other noncurrent assets" were based on the discounted value of future cash flow using applicable interest rates ranging from 1.61%–5.37% for 2021 and 1.35%–4.19% for 2020.

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

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

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Long-term loans payable (see Note 13) | **₱496,669,910** | **₱467,224,989** | ₱– | ₱– |
| Other noncurrent liabilities (see Note 14) | **17,130,032** | **16,222,069** | 5,624,863 | 5,319,164 |

The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 2.69% for 2021 and 1.98%–2.78% for 2020.

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

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

*Liquidity risk*
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's exposure to liquidity risk relates primarily to its short-term obligations.

The Company seeks to manage its liquidity profile by maintaining cash at a certain level and ensuring the availability of ample unused revolving credit facilities from banks as back-up liquidity that will enable it to finance its operating expenses. The Company has a total available credit line of up to ₱8,200.00 million and ₱10,800.00 million with various local banks as of December 31, 2021 and 2020, respectively.

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

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2021 and 2020 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, 2021**

| | On Demand | Within One (1) Year | More than One (1) Year | Total |
|---|---|---|---|---|
| **Financial liabilities:** | | | | |
| **Trade and other payables** | | | | |
| **Trade** | | | | |
| **Third parties** | **₱–** | **₱2,283,372,264** | **₱–** | **₱2,283,372,264** |
| **Related parties** | **–** | **23,897,296** | **–** | **23,897,296** |
| **Nontrade** | | | | |
| **Third parties** | **–** | **365,464,453** | **–** | **365,464,453** |
| **Related parties** | **–** | **20,532,248** | **–** | **20,532,248** |
| **Accrued expenses** | **–** | **383,657,912** | **–** | **383,657,912** |
| **Credit cash bonds** | **–** | **250,884,882** | **–** | **250,884,882** |
| **Others*** | **–** | **152,004,906** | **–** | **152,004,906** |
| **Short-term bank loans:** | | | | |
| **Principal** | **–** | **1,000,000,000** | **–** | **1,000,000,000** |
| **Future interest payments** | **–** | **3,875,000** | **–** | **3,875,000** |
| **Long-term bank loans:** | | | | |
| **Principal** | **–** | **–** | **500,000,000** | **500,000,000** |
| **Future interest payments** | **–** | **20,000,000** | **87,551,370** | **107,551,370** |
| **Lease liabilities** | **–** | **596,627,470** | **10,722,441,529** | **11,319,068,999** |
| **Other noncurrent liabilities** | **–** | **–** | **17,130,032** | **17,130,032** |
| | **₱–** | **₱5,100,316,431** | **₱11,327,122,931** | **₱16,427,439,362** |

**Excluding statutory payables*

December 31, 2020

| | On Demand | Within One (1) Year | More than One (1) Year | Total |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Trade and other payables | | | | |
| Trade | | | | |
| Third parties | ₱– | ₱2,803,894,480 | ₱– | ₱2,803,894,480 |
| Related parties | – | 17,379,792 | – | 17,379,792 |
| Nontrade | | | | |
| Third parties | – | 933,812,743 | – | 933,812,743 |
| Related parties | – | 6,528,437 | – | 6,528,437 |
| Accrued expenses | – | 433,171,456 | – | 433,171,456 |
| Credit cash bonds | – | 289,691,212 | – | 289,691,212 |
| Others* | – | 87,743,535 | – | 87,743,535 |
| Lease liabilities | – | 847,590,780 | 11,286,183,623 | 12,133,774,403 |
| Short-term bank loans: | | | | |
| Principal | – | 1,500,000,000 | – | 1,500,000,000 |
| Future interest payments | – | 1,333,333 | – | 1,333,333 |
| Other noncurrent liabilities | | – | 5,624,863 | 5,624,863 |
| | ₱– | ₱6,921,145,768 | ₱11,291,808,486 | ₱18,212,954,254 |

**Excluding statutory payables*

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

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

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

| | **2021** | | | |
|---|---|---|---|---|
| | **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 | **₱584,619,138** | **₱150,831,871** | **₱433,787,267** | **₱150,831,871** |
| Related parties | **–** | **–** | **–** | **–** |
| Nontrade | | | | |
| Related parties | **21,346,974** | **–** | **21,346,974** | – |
| Rentals | **39,095,564** | **13,685,869** | **25,409,695** | **13,685,869** |
| Accrued interest receivable | **4,079,885** | **–** | **4,079,885** | – |
| Others* | **33,373,205** | **–** | **33,373,205** | – |
| | **₱682,514,766** | **₱164,517,740** | **₱517,997,026** | **₱164,517,740** |

| | 2020 | | | |
|---|---|---|---|---|
| | Maximum exposure to credit risk | Fair value of collaterals or credit enhancements | Net exposure | Financial effect of collaterals or credit enhancements |
| Receivables: | | | | |
| Trade | | | | |
| Third parties | ₱591,889,200 | ₱176,207,811 | ₱415,681,389 | ₱176,207,811 |
| Related parties | 362,203 | – | 362,203 | – |
| Nontrade | | | | |
| Related parties | 42,418,814 | – | 42,418,814 | – |
| Rentals | 30,863,966 | 9,517,056 | 21,346,910 | 9,517,056 |
| Accrued interest receivable | 8,256,342 | – | 8,256,342 | – |
| Others* | 12,359,419 | – | 12,359,419 | – |
| | ₱686,149,9444 | ₱185,724,867 | ₱500,425,0777 | ₱185,724,867 |

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

Other than those disclosed above, the carrying amount of the financial assets represent the maximum exposure of the Company to credit risk.

*Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate exposure management policy centers on reducing the Company's overall interest expense and exposure to changes in interest rates.

As of December 31, 2021 and 2020, the Company's exposure to interest rate risk arises primarily from its long-term debt from a local bank with interest rate fixed for five years, subject to quarterly repricing at the end of the fifth year. Changes in market interest rates will have no significant impact on the Company's income before income tax and cash flows in 2021 and 2020 as the rate is still fixed.

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

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

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

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

Below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix as of December 31, 2021 and 2020:

**December 31, 2021**
*Trade receivables*

| | Current Stage 1 (12-month ECL) | Credit-impaired Stage 3 | Total |
|---|---|---|---|
| Expected credit loss rates | 0.01% | 92.36% | |
| Gross carrying amount | ₱557,272,079 | ₱27,347,059 | ₱584,619,138 |
| ECL | 349,760 | 25,256,259 | 25,606,019 |

*Rental*

| | Current Stage 1 (12-month ECL) | Credit-impaired Stage 3 | Total |
|---|---|---|---|
| Expected credit loss rates | 25.58% | 0.00% | |
| Gross carrying amount | ₱39,095,564 | ₱– | ₱39,095,564 |
| ECL | ₱10,000,000 | – | ₱10,000,000 |

December 31, 2020

*Trade receivables*

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

*Rental*

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

The Company recognized provision for impairment loss on trade receivables and rentals amounting to ₱7.38 million, ₱19.98 million and nil in 2021, 2020, and 2019, respectively (see Note 6).

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

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

## 28. **Note to Statements of Cash Flows**

The Company's noncash activities are as follows:

a) In 2021 and 2020, the Company entered into various agreements to revise existing lease agreements with its lessors which were accounted for by the Company as lease modifications resulting to gain amounting to ₱4.83 million and ₱84.46 million, respectively (see Note 24).
b) In 2021, total cost of inventories and net book value of properties damaged amounting to ₱33.90 million and ₱0.49 million, respectively, were recognized as casualty loss as a result of the typhoon Odette (see Note 17).

c) In 2021, borrowing costs capitalized to construction in progress amounted to ₱5.02 million (see Note 9).
d) In 2021 and 2020, depreciation and amortization of right-of-use assets amounting to ₱5.99 million and ₱13.91 million and interest expense on lease liabilities amounting to ₱8.48 million and ₱32.85 million were capitalized to “Construction-in-progress” under “Property and equipment” account (see Note 24).
e) In September 2020, the Company closed non-performing department stores and as a result, the Company retired the related leasehold improvements with a carrying value of ₱322.29 million recognized under “Loss on stores closure - net”, which is net of the ₱104.84 million gain on pre-termination of lease contracts arising from derecognition of right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively (see Notes 9, 19 and 24).
f) In 2020, the Company recognized provision for impairment losses amounting to ₱33.50 million pertaining to immovable property and equipment which may not be recoverable due to the closure of non-performing department stores during the year (see Notes 9 and 19). In addition, the Company recognized provision for impairment losses amounting to ₱99.86 million pertaining to right-of-use assets with the Company’s planned reduction of leased premises in 2021.
g) Transfers from advances to suppliers to property and equipment amounted to ₱172.31 million, ₱327.99 million and ₱23.73 million for 2021, 2020 and 2019, respectively.
h) Reclassification of leased computer equipment amounting to ₱67.75 million from property and equipment to right-of-use assets as of January 1, 2019 upon adoption of PFRS 16. On the same date, the Company entered into new terms and payments with the lessor for the lease of the computer equipment which resulted to lease modification and reduced the right-of-use assets by ₱10.15 million.
i) Advance rentals and deferred charges amounting to ₱4.69 million, ₱14.61 million and ₱219.24 million were transferred from noncurrent assets to right-of-use assets in 2021, 2020 and 2019, respectively in accordance with the PFRS 16.
j) Long-outstanding advances to suppliers were written off in 2019 amounting to ₱0.96 million.

The following are the cash flow movements of the Company’s financing liabilities in 2021, 2020 and 2019:

| | | | 2021 | | |
|---|---|---|---|---|---|
| | January 1 | Net cash flows | Movement in debt issue cost | Others | December 31 |
| Lease liabilities | **₱6,021,950,271** | **(₱677,225,703)** | **₱–** | **₱230,230,625** | **₱5,574,955,193** |
| Loans payable: | | | | | |
| Short-term bank loans | **1,500,000,000** | **(₱500,000,000)** | **–** | **–** | **₱1,000,000,000** |
| Long-term bank loans | **–** | **496,250,000** | **419,910** | **–** | **496,669,910** |
| Dividends payable | **8,500** | **–** | **–** | **–** | **8,500** |
| | **₱7,521,958,771** | **(₱680,975,703)** | **₱419,910** | **₱230,230,625** | **₱7,071,633,603** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | January 1 | Net cash flows | Dividends declared | Others | December 31 |
| Lease liabilities | ₱7,819,087,830 | (₱1,001,989,894) | ₱– | (₱795,147,665) | ₱6,021,950,271 |
| Loans payable: | | | | | |
| Short-term bank loans | – | 1,500,000,000 | – | – | 1,500,000,000 |
| Dividends payable | 8,268 | (205,762,268) | 205,762,500 | – | 8,500 |
| | ₱7,819,096,098 | ₱292,247,838 | ₱205,762,500 | (₱795,147,665) | ₱7,521,958,771 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| | January 1 | Net cash flows | Dividends declared | Others | December 31 |
| Lease liabilities | ₱8,044,061,918 | (₱1,300,319,804) | ₱– | ₱1,075,345,716 | ₱7,819,087,830 |
| Dividends payable | 8,160 | (205,762,392) | 205,762,500 | – | 8,268 |
| | ₱8,044,070,078 | (₱1,506,082,196) | ₱205,762,500 | ₱1,075,345,716 | ₱7,819,096,098 |

Others include the effect of the additional lease liabilities, accretion of interest, waived rentals and lease modification affecting lease liabilities account.

## 29. **Supplementary Information Required Under BSP Circular No. 1075**

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

Money Changing/Foreign Exchange Transactions

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **No. of Transactions** | **Amount in USD** | **Amount in PHP** | No. of Transactions | Amount in USD | Amount in PHP |
| Foreign currencies bought | 25,089 | 22,922,831 | ₱1,134,636,519 | 59,843 | 44,854,454 | ₱1,458,270,553 |
| Foreign currencies sold | 400 | 398,500 | 19,715,935 | 1,045 | 372,685 | 18,577,779 |

Quantitative Indicators of Financial Performance

| | **2021** | 2020 |
|---|---|---|
| Return on average equity: | | |
| Net income (loss) | | |
| Average total equity | **-3.81%** | -5.06% |
| Return on average assets: | | |
| Net income (loss) | | |
| Average total assets | **-1.56%** | -2.01% |

30. **Supplementary Information Required Under Revenue Regulations 15-2010**

The Company reported and/or paid the following taxes for 2021:

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

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

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

a. Net sales/receipts and Output VAT declared in the Company's VAT returns filed for 2021 are as follows:

| | Net Sales/Receipts | Output VAT |
|---|---|---|
| Sales subject to 12% VAT | ₱26,071,982,055 | ₱3,128,637,847 |
| Zero-rated sales | 1,959,919,380 | – |
| VAT-exempt sales | 3,798,216,754 | – |
| **Total Sales** | **₱31,830,118,189** | **₱3,128,637,847** |

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

| | |
|---|---|
| At January 1, 2021 | ₱96,163,794 |
| Input VAT on purchases of goods exceeding ₱1 million deferred from prior period | 187,241,673 |
| Current year's domestic purchases of goods | 3,160,457,143 |
| Current year's capital goods purchases | 27,788,444 |
| Current year's services rendered by nonresidents | 1,329,694 |
| Total available input VAT | 3,472,980,748 |
| Less: Deductions from input VAT | |
| Input VAT on purchases of goods exceeding ₱1 million deferred to the succeeding period | 143,237,367 |
| Input VAT allocable to exempt sales | 32,443,057 |
| Total allowable input tax | 3,297,300,324 |
| Less: Input VAT applied to Output VAT | 3,128,637,847 |
| Add: VAT withheld on sales to government | 4,317,084 |
| **At December 31, 2021** | **₱172,979,561** |

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2021.

| | |
|---|---|
| Business tax | ₱238,926,477 |
| Real property tax | 70,339,206 |
| Documentary stamp tax | 8,536,925 |
| Motor vehicle tax | 887,574 |
| Others | 40,628,606 |
| **Total** | **₱359,318,788** |

Withholding taxes
The amount of withholding taxes paid and accrued in 2021 consists of the following:

| | |
|---|---|
| Expanded withholding taxes | ₱392,779,412 |
| Tax on compensation and benefits | 77,680,775 |
| Final withholding taxes | 3,302,338 |
| **Total** | **₱473,762,525** |

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

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

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 29, 2022. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
Tax Identification No. 224-024-926
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1613-AR-1 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-123-2019, November 27, 2019, valid until November 26, 2022
PTR No. 8853466, January 3, 2022, Makati City

March 29, 2022

SGV
Building a better working world

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**INDEPENDENT AUDITOR'S REPORT ON**
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 29, 2022. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

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March 29, 2022

## INDEX TO THE SUPPLEMENTARY SCHEDULES

SCHEDULE A

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
## DECEMBER 31, 2021

| Name of Issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Income received or accrued |
|---|---|---|---|
| **Cash and cash equivalents** | | | |
| Bank of the Philippine Islands | ₱357,516,205 | ₱357,516,205 | |
| Philippine National Bank | 276,616,582 | 276,616,582 | |
| Wealth Development Bank | 283,508,531 | 283,508,531 | |
| Land Bank of the Philippines | 145,570,062 | 145,570,062 | |
| Security Bank | 142,790,079 | 142,790,079 | |
| Others | 465,750,339 | 465,750,339 | |
| | 1,671,751,798 | 1,671,751,798 | ₱6,765,590 |
| **Short-term investments** | | | |
| Land Bank of the Philippines | 405,623,643 | 405,623,643 | |
| Development Bank of the Philippines | 307,455,414 | 307,455,414 | |
| Wealth Development Bank | 378,565,076 | 378,565,076 | |
| | 1,091,644,133 | 1,091,644,133 | 21,426,382 |
| **Receivables** | | | |
| Third parties | 584,619,138 | 584,619,138 | |
| Related parties | 21,346,974 | 21,346,974 | |
| Rentals | 39,095,564 | 39,095,564 | |
| Others | 60,487,805 | 60,487,805 | |
| | 705,549,481 | 705,549,481 | - |
| | ₱3,468,945,412 | ₱3,468,945,412 | ₱28,191,972 |

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

## DECEMBER 31, 2021

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Current | Not Current | Balance at the end of the period |
|---|---|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2021

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

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
## DECEMBER 31, 2021

**Long-term Debt**

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "current portion of long-term" in related balance sheet | Amount shown under caption "long-term debt" in related balance sheet |
|---|---|---|---|
| Term Loan | ₱500,000,000 | N/A | ₱496,669,910 |

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
## DECEMBER 31, 2021

| Indebtedness to related parties (Long-term loans from Related Companies) | | |
|---|---|---|
| Name of related party | Balance at beginning of period | Balance at end of period |
| N/A | N/A | N/A |

SCHEDULE F

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS DECEMBER 31, 2021

**Guarantees of Securities of Other Issuers**

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

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
## DECEMBER 31, 2021

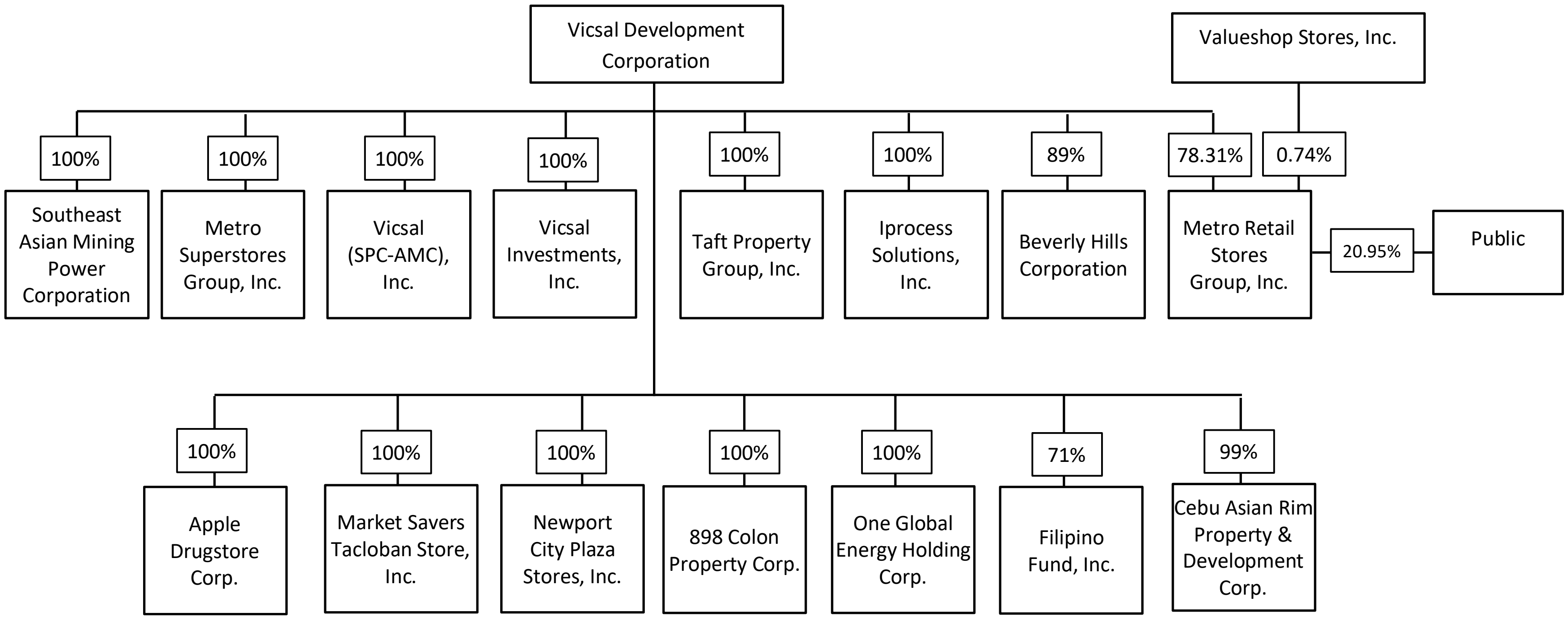
**Capital Stock**

| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common Shares | 10,000,000,000 | 3,429,375,000 | 103,320,000 | 2,652,950,871 | 38,357,011 | – |
| Preferred Shares | – | – | – | – | – | – |
| | 10,000,000,000 | 3,429,375,000 | 103,320,000 | 2,652,950,871 | 38,357,011 | – |

## METRO RETAIL STORES GROUP, INC.

## MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES

## DECEMBER 31, 2021



## METRO RETAIL STORES GROUP, INC.
## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
## DECEMBER 31, 2021

| | |
|---|---|
| Unappropriated Retained Earnings, beginning | **₱2,690,003,170** |
| Less: Deferred tax assets that reduced the amount of income tax expense | **551,579,129** |
| Unappropriated Retained Earnings as adjusted, beginning | **2,138,424,041** |
| Net (loss) income during the period closed to Retained Earnings | **(318,101,229)** |
| Less: Non-actual/unrealized income net of tax | |
| Amount of provisions for deferred tax during the year that reduced the amount of tax expense | **61,442,629** |
| Net (loss) income Actual/Realized | **(379,543,858)** |
| Less: | |
| Treasury shares | **(102,572,930)** |
| Dividend declarations during the period | **–** |
| | **(102,572,930)** |
| Unappropriated Retained Earnings, as adjusted, ending | **₱1,656,307,253** |

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
## DECEMBER 31, 2021

| Ratio | Formula | 2021 | 2020 |
|---|---|---|---|
| Current Ratio | Total current assets divided by total current liabilities<br><br>Total current assets ₱8,298,638,737<br>Total current liabilities 4,848,897,483<br>Current ratio 1.71 | **1.71** | 1.45 |
| Acid test ratio | Quick assets (total current assets less merchandise inventories and other current assets) divided by total current liabilities<br><br>Total current assets ₱8,298,638,737<br>Merchandise inventories 4,163,043,783<br>Other current assets 702,255,561<br>Quick assets 3,433,339,393<br>Total current liabilities 4,848,897,483<br>Acid test ratio 0.71 | **0.71** | 0.62 |
| Debt-to-equity ratio | Total net debt (debt less cash and cash equivalents) divided by total equity<br><br>Debt ₱1,496,669,910<br>Cash and cash equivalents 1,671,751,798<br>Net debt (175,081,888)<br>Total equity 8,173,297,791<br>Debt-to-equity ratio (0.02) | **(0.02)** | (0.09) |
| Asset-to-equity ratio | Total assets divided by total equity<br><br>Total assets ₱19,435,755,516<br>Total equity 8,173,297,791<br>Asset-to-equity ratio 2.38 | **2.38** | 2.50 |

## METRO RETAIL STORES GROUP, INC.

## SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
## DECEMBER 31, 2021

| Ratio | Formula | | 2021 | 2020 |
|---|---|---|---|---|
| Interest rate coverage ratio | EBITDA divided by finance cost | | **2.60** | 2.48 |
| | Net income (Loss) | (₱318,101,229) | | |
| | Benefit from income tax | (26,910,894) | | |
| | Interest and other financing charges | 469,455,919 | | |
| | | 124,443,796 | | |
| | Interest Income | (29,076,640) | | |
| | EBIT | 95,367,156 | | |
| | Depreciation and amortization | 1,124,944,374 | | |
| | EBITDA | 1,220,311,530 | | |
| | Finance costs | 469,455,919 | | |
| | Interest rate coverage ratio | 2.60 | | |
| Return on equity | Net income divided by average total equity | | **-3.81%** | -5.06% |
| | Net income (loss) | (₱318,101,229) | | |
| | Total equity CY | 8,173,297,791 | | |
| | Total equity PY | 8,536,334,938 | | |
| | Average total equity | 8,354,816,365 | | |
| | Return on equity | -3.81% | | |
| Return on assets | Net income divided by average total assets | | **-1.56%** | -2.01% |
| | Net income (loss) | (₱318,101,229) | | |
| | Total assets CY | 19,435,755,516 | | |
| | Total assets PY | 21,373,961,314 | | |
| | Average total assets | 20,404,808,415 | | |
| | Return on assets | -1.56% | | |
| Net profit margin | Net income divided by revenue | | **-1.02%** | -1.44% |
| | Net income (loss) | (₱318,101,229) | | |
| | Revenue | 31,211,348,935 | | |
| | Net profit margin | -1.02% | | |

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RETAIL STORES GROUP, INC.

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