

# COVER SHEET

for  
QUARTERLY FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

M	E	T	R	O		R	E	T	A	I	L		S	T	O	R	E	S		G	R	O	U	P	,		I	N	C

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

V	I	C	S	A	L		B	U	I	L	D	I	N	G	,		C	O	R	N	E	R		O	F		C	.	D
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G	U	I	Z	O	,		N	O	R	T	H		R	E	C	L	A	M	A	T	I	O	N		A	R	E	A	,
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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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### COMPANY INFORMATION

Company's Email Address

**info@metroretail.com.ph**

Company's Telephone Number

**(032) 236-8390**

Mobile Number

**N/A**

No. of Stockholders

**21**

Annual Meeting (Month / Day)

**First Friday of May**

Fiscal Year (Month / Day)

**December 31**

### CONTACT PERSON INFORMATION

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

Name of Contact Person

**Joselito G. Orense**

Email Address

**joel.orense@metro  
retail.com.ph**

Telephone Number/s

**(032) 236-7793**

Mobile Number

**N/A**

### CONTACT PERSON'S ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended ..... September 30, 2017
2. Commission identification number..... ... CS200315877
3. BIR Tax Identification No.... ..... 226-527-915-000
4. Exact name of issuer as specified in its charter METRO RETAIL STORES GROUP, INC.
5. Province, country or other jurisdiction of incorporation or organization Cebu, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code
- Vicsal Building, Corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area,  
Mandaue City, Cebu 6014**
8. Issuer's telephone number, including area code (032) 236-8390
- .....
9. Former name, former address and former fiscal year, if changed since last report N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock Outstanding and Amount of Debt outstanding
<b>Common Shares</b>	<b>3,429,375,000</b>

11. Are any or all of the securities listed on a Stock Exchange?

Yes  No

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

Philippine Stock Exchange, Inc. Common Shares

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The financial Statements are filed as part of this form 17-Q, pages 1 to 18 and are incorporated herein by reference to said quarterly report.

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

Furnish the information required by Part III, Paragraph (A)(2)(b) of "Annex C".

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

**UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION**

**AS AT SEPTEMBER 30, 2017**

**(With Comparative Audited Figures as at December 31, 2016)**

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 3 and 20)	<b>₱2,153,053,792</b>	₱3,306,952,158
Short-term investments (Notes 4 and 20)	<b>850,000,000</b>	525,000,000
Receivables (Notes 5 and 20)	<b>794,603,678</b>	846,291,020
Merchandise inventories (Note 6)	<b>4,154,130,142</b>	4,014,727,305
Other current assets (Note 7)	<b>251,211,149</b>	280,729,767
<b>Total Current Assets</b>	<b>8,202,998,761</b>	8,973,700,250
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	<b>2,377,334,517</b>	2,434,897,565
Deferred tax assets (Note 17)	<b>124,333,837</b>	114,489,387
Other noncurrent assets (Note 9)	<b>582,891,348</b>	549,086,284
<b>Total Noncurrent Assets</b>	<b>3,084,559,702</b>	3,098,473,236
<b>TOTAL ASSETS</b>	<b>₱11,287,558,463</b>	₱12,072,173,486
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 10 and 20)	<b>₱2,915,447,006</b>	₱3,940,896,922
Income tax payable	<b>53,389,203</b>	202,360,756
Finance lease liability - current portion (Note 21)	<b>23,561,112</b>	42,320,291
<b>Total Current Liabilities</b>	<b>2,992,397,321</b>	4,185,577,969
<b>Noncurrent Liabilities</b>		
Retirement benefit obligation (Note 15)	<b>340,031,197</b>	308,148,593
Finance lease liability - net of current portion (Note 21)	<b>57,736,712</b>	68,083,736
Other noncurrent liabilities (Note 11)	<b>373,547,629</b>	365,118,438
<b>Total Noncurrent Liabilities</b>	<b>771,315,538</b>	741,350,767
<b>Total Liabilities</b>	<b>3,763,712,859</b>	4,926,928,736
<b>Equity</b>		
Capital stock (Note 12)	<b>3,429,375,000</b>	3,429,375,000
Additional paid-in capital (Note 12)	<b>2,455,542,149</b>	2,455,542,149
Retained earnings (Note 12)	<b>1,588,972,305</b>	1,210,371,451
Remeasurement losses on defined benefit obligation (Note 15)	<b>49,956,150</b>	49,956,150
<b>Total Equity</b>	<b>7,523,845,604</b>	7,145,244,750
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱11,287,558,463</b>	₱12,072,173,486

*See accompanying Notes to Interim Condensed Financial Statements.*

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

**UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
<b>REVENUE</b>				
Net sales	<b>₱7,989,538,639</b>	₱7,828,305,750	<b>₱24,427,456,118</b>	₱23,738,272,246
Rental (Note 21)	<b>73,158,279</b>	66,670,424	<b>222,551,913</b>	205,286,622
Interest and other income (Note 13)	<b>25,574,758</b>	35,529,114	<b>89,394,866</b>	118,684,563
	<b>8,088,271,676</b>	7,930,505,288	<b>24,739,402,897</b>	24,062,243,431
<b>COSTS AND EXPENSES</b>				
Cost of sales (Note 6)	<b>6,271,929,581</b>	6,317,560,409	<b>19,212,660,078</b>	19,048,640,453
Operating expenses (Note 14)	<b>1,601,434,994</b>	1,593,744,119	<b>4,734,291,707</b>	4,611,394,627
Finance costs (Notes 11 and 21)	<b>3,862,317</b>	3,471,547	<b>13,310,552</b>	15,127,234
	<b>7,877,226,892</b>	7,914,776,075	<b>23,960,262,337</b>	23,675,162,314
<b>INCOME BEFORE INCOME TAX</b>	<b>211,044,784</b>	15,729,213	<b>779,140,560</b>	387,081,117
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)</b>				
Current	<b>65,643,626</b>	6,002,768	<b>238,915,406</b>	111,673,369
Deferred	<b>(3,551,816)</b>	(2,895,268)	<b>(9,844,450)</b>	757,432
	<b>62,091,810</b>	3,107,500	<b>229,070,956</b>	112,430,801
<b>NET INCOME</b>	<b>148,952,974</b>	12,621,713	<b>550,069,604</b>	274,650,316
<b>OTHER COMPREHENSIVE INCOME</b>				
<i>Not to be reclassified to profit or loss in subsequent periods</i>				
Remeasurement gains (losses) on defined benefit obligation	-	-	-	-
Income tax effect	-	-	-	-
	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱148,952,974</b>	₱12,621,713	<b>₱550,069,604</b>	₱274,650,316
<b>Basic/Diluted Earnings Per Share (Note 18)</b>	<b>₱0.04</b>	₱0.01	<b>₱0.16</b>	₱0.08

See accompanying Notes to Interim Condensed Financial Statements.

**METRO RETAIL STORES GROUP, INC.****(Formerly Valueshop Market Market, Inc.)****UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**

	Capital Stock (Notes 12 and 18)	Additional Paid-in Capital (Note 12)	Retained Earnings (Note 12)	Remeasurement Gains (Losses) on Defined Benefit Obligation	Total
Balances at December 31, 2016 (Audited)	<b>₱3,429,375,000</b>	<b>₱2,455,542,149</b>	<b>₱1,210,371,451</b>	<b>₱49,956,150</b>	<b>₱7,145,244,750</b>
Net income for the period	-	-	<b>550,069,604</b>	-	<b>550,069,604</b>
Other comprehensive income	-	-	-	-	-
Total Comprehensive Income	-	-	<b>550,069,604</b>	-	<b>550,069,604</b>
Declaration of dividends (Note 12)	-	-	<b>(171,468,750)</b>	-	<b>(171,468,750)</b>
Balances at September 30, 2017 (Unaudited)	<b>₱3,429,375,000</b>	<b>₱2,455,542,149</b>	<b>₱1,588,972,305</b>	<b>₱49,956,150</b>	<b>₱7,523,845,604</b>
Balances at December 31, 2015 (Audited)	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037
Net income for the period	-	-	274,650,316	-	274,650,316
Other comprehensive income	-	-	-	-	-
Total Comprehensive Income	-	-	274,650,316	-	274,650,316
Declaration of dividends (Note 12)	-	-	(154,321,876)	-	(154,321,876)
Balances at September 30, 2016 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱695,569,664	(₱14,936,336)	₱6,565,550,477

*See accompanying Notes to Interim Condensed Financial Statements.*

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

**UNAUDITED INTERIM STATEMENTS OF CASH FLOWS**

	<b>Nine-Month Periods Ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱779,140,560</b>	₱387,081,117
Adjustments for:		
Depreciation and amortization (Note 14)	<b>389,316,990</b>	345,613,204
Retirement benefits cost (Note 15)	<b>31,882,604</b>	29,442,242
Finance costs (Notes 11 and 21)	<b>13,310,552</b>	15,127,234
Interest income (Note 13)	<b>(40,682,296)</b>	(47,632,047)
Provision for impairment losses (Notes 5 and 14)	<b>2,124,156</b>	-
Operating income before working capital changes	<b>1,175,092,566</b>	729,631,750
Decrease (Increase) in:		
Receivables	<b>53,169,382</b>	166,099,677
Merchandise inventories	<b>(139,402,837)</b>	366,684,273
Other current assets	<b>(1,723,930)</b>	(103,099,200)
Increase (decrease) in:		
Trade and other payables	<b>(1,015,621,277)</b>	(782,453,817)
Other noncurrent liabilities	<b>8,429,191</b>	9,285,403
Cash flows generated from operations	<b>79,943,095</b>	386,148,085
Interest received	<b>37,076,100</b>	46,904,001
Income tax paid	<b>(356,644,411)</b>	(279,213,540)
Interest paid	<b>(23,139,191)</b>	(15,127,234)
Net cash flows generated from (used in) operating activities	<b>(262,764,407)</b>	138,711,312
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment (Note 8)	<b>(331,753,942)</b>	(623,182,089)
Decrease (increase) in:		
Short-term investments (Note 4)	<b>(325,000,000)</b>	1,700,000,000
Other noncurrent assets	<b>(33,805,064)</b>	(73,860,795)
Net cash flows generated from (used in) investing activities	<b>(690,559,006)</b>	1,002,957,116
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividend (Note 12)	<b>(171,468,750)</b>	(154,321,876)
Finance lease liability (Note 21)	<b>(29,106,203)</b>	-
Payment of loans payable	-	(950,000,000)
Net cash flows used in financing activities	<b>(200,574,953)</b>	(1,104,321,876)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,153,898,366)</b>	37,346,552
<b>CASH AT BEGINNING OF PERIOD</b>	<b>3,306,952,158</b>	2,351,037,390
<b>CASH AT END OF PERIOD</b>	<b>₱2,153,053,792</b>	₱2,388,383,942

*See accompanying Notes to Interim Condensed Financial Statements.*

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

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**NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**

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

Corporate Information

Metro Retail Stores Group, Inc. (formerly Valueshop Market Market, Inc.) (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003. The Company is 72.17%-owned by Vicsal Development Corporation (VDC), 0.72%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

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

The Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 24, 2015 (see Note 12).

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 Unaudited Interim Condensed Financial Statements

The unaudited interim condensed financial statements of the Company as at September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 were approved and authorized by the Board of Directors (BOD) on November 7, 2017.

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

Basis of Preparation

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

The accompanying unaudited interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2016.

Statement of Compliance

The accompanying unaudited interim condensed financial statements as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.



### Changes in Accounting Policies

The accounting policies adopted by the Company are consistent with those of the previous financial years except for the following amendments to existing PFRS that became effective beginning January 1, 2017 and which have no impact on the Company's financial statements.

#### *Effective beginning on or after January 1, 2017*

- *Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal Company that is classified) as held for sale.

The amendments do not have any impact on the Company's financial position and results of operation.

- *Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative*

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

- *Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

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

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

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

### 3. Cash and Cash Equivalents

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash on hand	P138,722,763	P116,601,205
Cash in banks	688,914,457	1,600,350,953
Cash equivalents	1,325,416,572	1,590,000,000
	<b>P2,153,053,792</b>	<b>P3,306,952,158</b>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks and cash equivalents amounted to P17.73 million and P20.30 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

### 4. Short-term Investments

These pertain to money market placements with maturities of more than three months but less than one year and earn interest ranging from 2.125% to 2.625%.

Short term investments as of September 30, 2017 and December 31, 2016 amounted to P850.00 million and P525.00 million, respectively.

Interest income earned from short-term investments amounted to P22.95 million and P27.33 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

### 5. Receivables

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade		
Third parties	P596,172,680	P771,559,360
Related parties (Note 16)	144,546,099	8,951,580
Nontrade		
Rentals	20,010,803	25,898,379
Advances to employees and officers	11,741,189	13,260,336
Related parties (Note 16)	5,057,824	4,913,913
Others	28,687,495	31,195,708
	<b>806,216,090</b>	<b>855,779,276</b>
Less allowance for impairment losses	<b>(11,612,412)</b>	<b>(9,488,256)</b>
	<b>P794,603,678</b>	<b>P846,291,020</b>

Trade receivables pertain to credit sales significantly from the Company's credit account holders and credit card companies. These are noninterest-bearing and are generally collectible within 30 to 60 days.

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

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

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

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

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Beginning of year	<b>₱9,488,256</b>	₱9,488,256
Provision for impairment losses (Note 14)	<b>2,124,156</b>	-
End of year	<b>₱11,612,412</b>	₱9,488,256

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#### 6. Merchandise Inventories

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Beginning inventory	<b>₱4,014,727,305</b>	₱3,679,815,495
Add purchases – net	<b>19,352,062,915</b>	27,766,881,546
Cost of goods available for sale	<b>23,366,790,220</b>	31,446,697,041
Less cost of sales	<b>(19,212,660,078)</b>	(27,431,969,736)
Ending inventory	<b>₱4,154,130,142</b>	₱4,014,727,305

No inventories have been pledged as security for the Company's obligations as at September 30, 2017 and December 31, 2016.

The Company does not have any purchase commitments as at September 30, 2017 and December 31, 2016.

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#### 7. Other Current Assets

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Advances to suppliers	<b>₱89,662,097</b>	₱129,718,749
Prepayment	<b>94,144,631</b>	78,262,522
Supplies	<b>64,526,917</b>	72,308,365
Others	<b>2,877,504</b>	440,131
	<b>₱251,211,149</b>	₱280,729,767

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

Prepayments consist of advance payments of insurance, rental, software, and subscriptions.

Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes.

Others mainly pertain to e-commerce payment partners, and other miscellaneous advances.

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## 8. Property and Equipment

For the nine-month periods ended September 30, 2017 and 2016, total additions to property and equipment amounted to ₱331.75 million and ₱942.58 million, respectively, while depreciation and amortization amounted to ₱389.32 million and ₱345.61 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

There are no items of property and equipment that are pledged as security to liabilities as at September 30, 2017 and December 31, 2016.

As of September 30, 2017 and December 31, 2016, the Company's net book value of property and equipment amounted to ₱2,377.33 million and ₱2,434.90 million, respectively.

### *Fully depreciated property and equipment*

The cost of fully depreciated property and equipment still in use amounted to ₱1,036.15 million and ₱516.63 million as at September 30, 2017 and December 31, 2016, respectively.

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## 9. Other Noncurrent Assets

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Deposits	<b>₱445,835,692</b>	₱415,378,119
Deferred input VAT	<b>137,055,656</b>	133,708,165
	<b>₱582,891,348</b>	₱549,086,284

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

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

## 10. Trade and Other Payables

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Trade payables	<b>₱2,245,747,859</b>	₱3,097,831,679
Accrued expenses	<b>275,305,663</b>	241,136,805
Nontrade		
Third parties	<b>165,956,196</b>	300,207,618
Related parties (Note 21)	<b>6,836,373</b>	7,466,024
Deferred revenue	<b>131,515,389</b>	133,497,200
Others	<b>90,085,526</b>	160,757,596
	<b>₱2,915,447,006</b>	₱3,940,896,922

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

Accrued expenses consist of:

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Suppliers and contractors	<b>₱69,239,950</b>	₱67,469,119
Personnel cost	<b>85,828,260</b>	-
Utilities	<b>42,043,172</b>	60,635,787
Marketing-related cost	<b>36,215,891</b>	34,445,937
Rentals	<b>11,483,030</b>	11,066,656
Professional fees	<b>3,419,715</b>	21,885,369
Other accruals	<b>27,075,645</b>	45,633,937
	<b>₱275,305,663</b>	₱241,136,805

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.

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

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

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## 11. Other Noncurrent Liabilities

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Credit cash bonds	<b>₱324,868,482</b>	₱316,956,963
Deposits	<b>48,679,147</b>	48,161,475
	<b>₱373,547,629</b>	₱365,118,438

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Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This can also be applied against the account holder's remaining balance if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate based on accumulated cash bond and purchases volume.

Finance cost pertaining to the cash bonds amounted to ₱10.94 million and ₱10.23 million for the nine-month periods ended September 30, 2017 and 2016, respectively. These were settled through deduction in the credit account holders' receivable balance.

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## 12. Equity

### Capital Stock

The Company's authorized, issued and outstanding shares as of September 30, 2017 and December 31, 2016 are as follows:

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

### *Initial Public Offering (IPO)*

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

On November 6, 2015, the SEC through its Markets and Securities Regulation Department (MSRD) issued the Order of Registration (SEC-MSRD Order No. 75 Series of 2015) dated November 6, 2016, rendering effective the Company's Registration Statement and the registration of up to 3,429,375,000 common shares of the Company at an offer price of ₱3.99 per share. On the same day, the SEC through the MSRD issued a Certificate of Permit to Sell or Offer for Sale Securities dated November 6, 2016, covering the securities of the Company consisting of 3,429,375,000 common shares covered by SEC-MSRD Order No. 75 Series of 2015.

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

Additional Paid-in Capital

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

Stock Option Plan

The Board of Directors and Stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 shares out of its unissued capital stock to key personnel. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of September 30, 2017 and December 31, 2016.

Retained Earnings

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

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

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**13. Interest and Other Income**

	<b>September 30, 2017 (Unaudited)</b>	September 30, 2016 (Unaudited)
Interest income (Notes 3 and 4)	<b>₱40,682,296</b>	₱47,632,047
Net foreign exchange gains	<b>13,843,732</b>	11,586,906
Scrap sales	<b>8,541,320</b>	8,914,562
Others	<b>26,327,518</b>	50,551,048
	<b>₱89,394,866</b>	₱118,684,563

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

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

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#### 14. Operating Expenses

	<b>September 30, 2017 (Unaudited)</b>	September 30, 2016 (Unaudited)
Personnel cost (Note 15)	<b>₱1,540,695,126</b>	₱1,589,420,702
Rental (Note 21)	<b>1,120,073,940</b>	1,060,570,269
Light, water and communications	<b>581,906,599</b>	565,605,406
Depreciation and amortization (Note 8)	<b>389,316,990</b>	345,613,204
Contracted services and professional fees	<b>284,676,523</b>	293,045,840
Taxes and licenses	<b>225,822,791</b>	215,030,554
Repairs and maintenance	<b>149,033,565</b>	107,180,507
Advertising	<b>117,988,503</b>	125,200,792
Supplies	<b>115,498,406</b>	118,339,902
Transportation and travel	<b>66,190,852</b>	65,978,755
Commission	<b>67,901,174</b>	67,928,952
Subscriptions	<b>30,738,064</b>	15,607,434
Insurance	<b>23,770,084</b>	22,765,183
Others	<b>20,679,090</b>	19,107,127
	<b>₱4,734,291,707</b>	₱4,611,394,627

Others pertain to representation and entertainment, provision for impairment losses, donations and contributions.

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#### 15. Personnel Cost

	<b>September 30, 2017 (Unaudited)</b>	September 30, 2016 (Unaudited)
Salaries and wages	<b>₱1,274,618,970</b>	₱1,326,562,550
Retirement benefit cost	<b>31,882,604</b>	29,442,242
Other employee benefits	<b>234,193,552</b>	233,415,910
	<b>₱1,540,695,126</b>	₱1,589,420,702

Other employee benefits consist of the monetary amounts of unused vacation and sick leaves, the required employer contributions to SSS, PHIC and HDMF, 13th month pay and other incentives.

As of September 30, 2017, the Company's retirement benefit obligation and remeasurement gains on the defined benefit obligation amounted to ₱340.03 million and ₱49.96 million, respectively. As of December 31, 2016, these amounted to ₱308.15 million and ₱49.96 million, respectively.

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#### 16. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and



operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, noninterest-bearing. 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 at September 30, 2017 and December 31, 2016 are as follows:

September 30, 2017

	Amount/Volume for the nine-month period ended September 30, 2017 (Unaudited)	Outstanding Balance as of September 30, 2017 (Unaudited)	Terms and Conditions
<i>Parent Company (VDC)</i>			
Rental expense	(P826,398,961)	(P6,836,373)	Noninterest-bearing and due in 30 days, unsecured
Advances	13,653,707	5,057,824	Noninterest-bearing and due in 30 days, not impaired
Management Fee	(18,558,000)	-	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase, sale of goods and services and rental income	(647,175,610)	144,546,099	Noninterest-bearing and payable in 30 days, not impaired
<b>Due from (to) related parties</b>		<b>P142,767,550</b>	

December 31, 2016

	Amount/Volume for the year ended December 31, 2016 (Audited)	Outstanding Balance as of December 31, 2016 (Audited)	Terms and Conditions
<i>Parent Company (VDC)</i>			
Rental expense	(P810,762,065)	(P7,466,024)	Noninterest-bearing and due in 30 days, unsecured
Advances	6,258,686	4,913,913	Noninterest-bearing and due in 30 days, not impaired
Management fee	(21,838,200)	-	Noninterest-bearing and payable in 30 days, unsecured
<i>Entities Under Common Control</i>			
Purchase, sale of goods and services and rental income	(987,740,614)	8,951,580	Noninterest-bearing and payable in 30 days, not impaired
<b>Due from (to) related parties</b>		<b>P6,399,469</b>	

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

- a. rental expense from leases for the Company's store spaces and warehouses;

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

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱750.2 million and ₱972.20 million as at September 30, 2017 and December 31, 2016, respectively, which earn interest based on prevailing market interest rates.

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## 17. Income Tax

Provision for income tax consists of the following:

	<b>September 30, 2017 (Unaudited)</b>	September 30, 2016 (Unaudited)
Current	<b>₱238,915,406</b>	₱111,673,369
Deferred	<b>(9,844,450)</b>	757,432
	<b>₱229,070,956</b>	₱112,430,801

The current provision for income tax pertains to final and regular corporate income tax for the nine-month periods ended September 30, 2017 and 2016.

As of September 30, 2017 and December 31, 2016, the Company's deferred tax assets amounted to ₱124.33 million and ₱114.49 million, respectively, which pertains to income tax effect of retirement benefit obligation, deferred revenue from customer loyalty program and allowance for impairment of receivables.

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## 18. Earnings Per Share

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

	<b>September 30, 2017 (Unaudited)</b>	September 30, 2016 (Unaudited)
Net income	<b>₱550,069,604</b>	₱274,650,316
Number of common shares	<b>3,429,375,000</b>	3,429,375,000
	<b>₱0.16</b>	₱0.08

EPS is calculated using the net income divided by the weighted average number of common shares.

The Company assessed that there were no potential dilutive common shares as of September 30, 2017 and 2016.

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## 19. 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, *Operating Segments*.

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

The Company conducts its operations through the following store formats:

### *Department Stores*

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

### *Supermarket*

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

### *Hypermarkets*

Hypermarkets consist of "superstores" which is a combination of supermarket and department store which offer a wide range of product including full grocery lines and general merchandise. The Company does not report its results based on geographical segments. The Company has no significant customer which contributes 10% or more to the revenues of the Company.

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## 20. Financial Instruments

### 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 general and administrative expenses and operations. 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

September 30, 2017 and December 31, 2016 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

**September 30, 2017**

	On Demand	Within Three (3) Months	More than Three (3) Months	Total
Financial Liabilities:				
Trade and other payables				
Trade	P=	P2,245,747,859	P=	P2,245,747,859
Non-trade				
Third parties	-	165,956,196	-	165,956,196
Related parties	-	6,836,373	-	6,836,373
Accrued expenses	-	275,305,663	-	275,305,663
Others*	-	43,899,180	-	43,899,180
	P=	P2,737,745,271	P=	P2,737,745,271

\* Others excludes payables to government

**December 31, 2016**

	On Demand	Within Three (3) Months	More than Three (3) Months	Total
Financial Liabilities:				
Trade and other payables				
Trade	P=	P3,097,831,679	P=	P3,097,831,679
Non-trade				
Third parties	-	179,824,663	120,382,955	300,207,618
Related parties	-	7,466,024	-	7,466,024
Accrued expenses	-	241,136,805	-	241,136,805
Others*	-	15,670,725	-	15,670,725
	P=	P3,541,929,896	P120,382,955	P3,662,312,851

\* Others excludes payables to government

***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 by each counterparty or Company of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

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

September 30, 2017				
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
<b>Receivables:</b>				
Trade				
Third parties	P596,172,680	P324,868,482	P271,304,198	P324,868,482
Related parties	144,546,099	-	144,546,099	-
Nontrade				
Rentals	20,010,803	45,291,120	-	45,291,120
Related parties	5,057,824	-	5,057,824	-
Others	28,687,495	-	28,687,495	-
	<b>P794,474,901</b>	<b>P370,159,602</b>	<b>P449,595,616</b>	<b>P370,159,602</b>

December 31, 2016				
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
<b>Receivables:</b>				
Trade				
Third parties	P771,647,508	P316,956,963	P420,176,204	P316,956,963
Related parties	8,951,580	-	8,951,580	-
Nontrade				
Rentals	25,898,379	43,778,644	-	43,778,644
Related parties	4,913,913	-	4,913,913	-
Others	31,195,708	-	31,195,708	-
	<b>P842,607,088</b>	<b>P360,735,607</b>	<b>P503,708,474</b>	<b>P360,735,607</b>

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

*Credit quality per class of financial asset*

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

**September 30, 2017**

	Neither Past Due Nor Impaired		Past Due But Not Impaired	Individually Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents*	<b>₱2,014,331,029</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,014,331,029</b>
Short-term investments	<b>850,000,000</b>	-	-	-	<b>850,000,000</b>
Receivables					
Trade					
Third parties	<b>548,578,077</b>	-	<b>35,982,191</b>	<b>11,612,412</b>	<b>596,172,680</b>
Related parties	<b>144,546,099</b>	-	-	-	<b>144,546,099</b>
Nontrade					
Rentals	<b>20,010,803</b>	-	-	-	<b>20,010,803</b>
Related parties	<b>5,057,824</b>	-	-	-	<b>5,057,824</b>
Others	<b>28,687,495</b>	-	-	-	<b>28,687,495</b>
	<b>₱3,611,211,327</b>	<b>₱-</b>	<b>₱35,982,191</b>	<b>₱11,612,412</b>	<b>₱3,658,805,930</b>

\*Cash and cash equivalents excludes cash on hand

**December 31, 2016**

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

\*Cash and cash equivalents excludes cash on hand

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

**September 30, 2017**

	Neither past due nor Impaired	Past due but not impaired			Individually Impaired	Total
		Less than 30 days	30 - 60 days	More than 60 days		
Cash and cash equivalents*	<b>₱2,014,331,029</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,014,331,029</b>
Short-term investments	<b>850,000,000</b>	-	-	-	-	<b>850,000,000</b>
Receivables:						
Trade						
Third parties	<b>548,578,077</b>	<b>28,685,667</b>	<b>961,130</b>	<b>6,335,394</b>	<b>11,612,412</b>	<b>596,172,680</b>
Related parties	<b>144,546,099</b>	-	-	-	-	<b>144,546,099</b>
Nontrade						
Rentals	<b>20,010,803</b>	-	-	-	-	<b>20,010,803</b>
Related parties	<b>5,057,824</b>	-	-	-	-	<b>5,057,824</b>
Others	<b>28,687,495</b>	-	-	-	-	<b>28,687,495</b>
	<b>₱3,611,211,327</b>	<b>₱28,685,667</b>	<b>₱961,130</b>	<b>₱6,335,394</b>	<b>₱11,612,412</b>	<b>₱3,658,805,930</b>

\*Cash and cash equivalents excludes cash on hand

December 31, 2016

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

\*Cash and cash equivalents excludes cash on hand

Fair Value of Financial Instruments

The fair value of the Company's financial instruments approximates the carrying amount as of September 30, 2017 and December 31, 2016.

Financial Assets

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

Financial Liabilities

Due to the short-term nature of "Trade and other payables" (excluding "Deferred revenue and Payables to government") their carrying values approximate fair value.

Fair Value Hierarchy

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of September 30, 2017 and December 31, 2016, the Company has no financial asset and liability valued at fair value. There were no transfers among Levels 1, 2 and 3 in 2017 and 2016.

**21. Lease Commitments**

Operating leases - Company as lessee

The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. These leases have terms ranging from one to twenty five years and generally provide for either: (a) fixed monthly rent; or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Certain leases include a clause to

enable upward revision on the rental charge on an annual basis based on prevailing market conditions.

Rent expense amounted to ₱1,120.07 million and ₱1,060.57 million for the nine-month periods ended September 30, 2017 and 2016, respectively (see Note 14).

Minimum lease payments amounted to ₱667.11 million and ₱624.45 million in 2017 and 2016, respectively.

Contingent rent payments amounted to ₱452.96 million and ₱436.25 million in 2017 and 2016, respectively.

#### Operating leases - Company as lessor

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

Rent income amounted to ₱222.55 million and ₱205.29 for the nine-month periods ended September 30, 2017 and 2016, respectively.

#### Finance lease - Company as lessee

The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company.

The finance lease obligation amounted to ₱81.30 million and ₱110.40 million as of September 30, 2017 and December 31, 2016, respectively. The present value of minimum lease payments is as follows:

	<b>September 30, 2017 (Unaudited)</b>	December 31 2016 (Audited)
Gross finance lease obligation:		
Not later than one year	<b>₱23,561,112</b>	₱42,320,291
Later than one year but no later than five years	<b>57,736,712</b>	68,083,736
	<b>₱81,297,824</b>	₱110,404,027

The finance cost related to finance lease obligation amounted to ₱2.37 million and nil for the nine-month periods ended September 30, 2017 and 2016, respectively.

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## 22. Seasonality of Operations

The Company experiences seasonal fluctuations in supermarket, department store and hypermarket operations. Historically, sales peak in December of each year, thereafter it slows down in the first quarter of the year and begins to increase in the second quarter, driven by the summer season, the school break in April and May, and particularly the beginning of the school year in the month of June. This is followed by a slowdown in sales in the third quarter due to the



rainy season.

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

### Results of Operations

The nine-month period ended September 30, 2017 compared with the nine-month period ended September 30, 2016 results of operations are as follows:

#### Revenue

##### *Net sales*

For the nine-month period ended September 30, 2017, our net sales were ₱24,427.5 million, an increase of 2.9% compared to ₱23,738.3 million for the same period last year. The increase in net sales was largely a result of opening a new store during the last quarter of 2016 and two new stores in 2017. The Company has a total of 52 stores as of September 30, 2017 versus 49 stores as of September 30, 2016. Same store sales growth was 0.4% in 2017 as compared to 2.9% in 2016.

##### *Rental Income*

For the nine-month period ended September 30, 2017, our rental income was ₱222.6 million, an increase of 8.4% compared to ₱205.3 million for the same period last year. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space. In addition, there was an increase in rental fees due to escalation clauses in our existing lease agreements.

##### *Interest and other income*

For the nine-month period ended September 30, 2017, our interest and other income was ₱89.4 million, a decrease of 24.7% compared to ₱118.7 million for the same period last year. The decrease is coming from one off adjustments in liabilities in 2016.

#### Cost of sales

For the nine-month period ended September 30, 2017, our cost of sales was ₱19,212.7 million, an increase of 0.9% compared to ₱19,048.6 million for the same period last year. This is an increase in gross margin as this is lower than the 2.9% increase in net sales driven by merchandising improvements and margin rationalization in both supermarket and general merchandise.

#### Operating expenses

For the nine-month period ended September 30, 2017, our operating expenses were ₱4,734.3 million, an increase of 2.7% compared to ₱4,611.4 million for the same period last year. In 2017, there were notable decreases in personnel cost, contracted services and professional fees however, there were increases in rent expenses, repairs and maintenance, overhead expenses and depreciation expenses resulting primarily from opening of new stores.

#### Finance costs

This account consist of finance cost from outstanding loans payable and credit cash bonds. For the nine-month period ended September 30, 2017, finance costs were ₱13.3 million, a decrease of 11.9% compared to ₱15.1 million for the same period last year. The decrease is due to no finance cost arising from loans payable in 2017 since its outstanding loans was fully settled in February 2016.

#### Provision for income tax

For the nine-month period ended September 30, 2017, our provision for income tax was ₱229.1 million, an increase of 103.8 % compared to ₱112.4 million for the nine-month periods ended September 30, 2016. The increase in provision for income tax was primarily due to the increase in income before tax.

#### Net income

As a result of the foregoing, for the nine-month period ended September 30, 2017, our net income was ₱550.1 million, an increase of 100.3% compared to ₱274.7 million for the nine-month period ended September 30, 2016.

### **Financial Position**

As of September 30, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,210.6 million and ₱4,788.1 million respectively, representing a positive net working capital position.

#### *Current Assets*

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of September 30, 2017 and December 31, 2016 were ₱8,203.0 million and ₱8,973.7 million, respectively. The decrease of 8.6% of current assets is significantly due to decrease of cash and cash equivalents, receivables and other current assets. As of September 30, 2017, short-term investment totaled ₱850.0 million, receivables totaled ₱794.6 million, merchandise inventories totaled ₱4,154.1 million and other current assets totaled ₱251.2 million. As of December 31, 2016, short-term investment totaled ₱525.0 million, receivables totaled ₱846.3 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱280.7 million.

As of September 30, 2017, cash and cash equivalents amounted to ₱2,153.1 million, a decrease of 34.9% from ₱3,307.0 million as of December 31, 2016. The decrease were mainly attributable to increase of short-term investments by ₱325.0 million, net cash flow used in operating activities amounting to ₱262.8 million, addition to property and equipment amounting to ₱331.8 million and dividends payment amounting to ₱171.5 million.

#### *Current Liabilities*

Total current liabilities as of September 30, 2017 and December 31, 2016 were ₱2,992.4 million and ₱4,185.6 million, respectively. As of September 30, 2017 and December 31, 2016, trade and

other payables totaled ₱2,915.4 million and ₱3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

## Cash Flows

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

	<b>For the nine-month periods ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
	(₱ million)	
Net cash flows from (used in) operating activities	(262.8)	138.7
Net cash flows from (used in) investing activities	(690.6)	1,003.0
Net cash flows used in financing activities	(200.6)	(1,104.3)
Net increase (decrease) in cash	<u>(1,153.9)</u>	<u>37.3</u>

### *Net cash flows from (used in) operating activities*

Our net cash flows used in operating activities for the nine-month period ended September 30, 2017 was ₱262.8 million, which comprised operating income before working capital changes of ₱1,175.1 million, decreased by changes in working capital and income tax and interest paid and offset by interest received. The changes in working capital were mainly attributable to decrease in trade and other payables of ₱1,015.6 million, increase in merchandise inventories of ₱139.4 and offset by decrease in receivables of ₱53.2 million.

For the nine-months period ended September 30, 2016, net cash flows generated from operating activities was ₱138.7 million, which comprised operating income before working capital changes of ₱729.6 million, adjusted for changes in working capital and interest received, offset by income tax and interest paid. The changes in working capital were mainly attributable to decreases in receivables of ₱166.1 million and merchandise inventories of ₱366.7 million. The decrease in trade and other payables of ₱782.5 million and increase in other current assets of ₱103.1 million also significantly contributed to the change in working capital requirements.

### *Net cash flows from (used in) investing activities*

For the nine-month period ended September 30, 2017, net cash flows used in investing activities was ₱690.6 million, which resulted from increase of ₱325.0 million in short-term investments and additions to property and equipment primarily resulting from fit outs of new stores amounting to ₱331.8 million as well as increase in other noncurrent assets amounting to ₱33.8 million. For the nine-month period ended September 30, 2016, net cash flows generated from investing activities was ₱1,003.0 million, which resulted from maturity of short term investments of ₱1,700.0 million as well as additions to property and equipment resulting from acquisition of assets as well as fit-outs of new stores amounting to ₱623.2 million.

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

Net cash flows used in financing activities was ₱200.6 million for the nine-month period ended September 30, 2017, as a result of payment of cash dividends amounting to ₱171.5 million and payment of finance lease liability amounting to ₱29.1 million. Cash flows used in financing

activities for the nine-month period ended September 30, 2016 resulted from bank loan payment amounting to ₱950.0 million and payment of cash dividends amounting to ₱154.3 million.

*Indebtedness*

We have no outstanding loans payable as of September 30, 2017 and as of December 31, 2016.

**PART II--OTHER INFORMATION**

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.


**SIGNATURES**

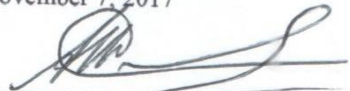
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METRO RETAIL STORE GROUP, INC.

Issuer.....

By:

  
FRANK S. GAISANO  
Chairman and Chief Executive Officer  
November 7, 2017

  
ARTHUR EMMANUEL  
President and Chief Operating Officer  
November 7, 2017

  
JOSELITO G. ORENSE  
Treasurer and Chief Financial Officer  
November 7, 2017