*SEC Number* 168063
*File Number* ________

**PRYCE CORPORATION**
(formerly PRYCE PROPERTIES CORPORATION)

*Company's Full Name*

**17th Floor Pryce Center, 1179 Chino Roces Avenue corner Bagtikan St., Makati City**

*Company's Address*

899-44-01 (trunkline)
*Telephone Number*

December 31
*Fiscal Year Ending*
*(Month & Day)*

**SEC Form 17-Q**

*Form Type*

N/A

*Amendment Designation (if applicable)*

June 30, 2019

*Period Ended Date*

N/A

***Secondary License Type and File Number***

SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2019

2. Commission identification number 168063

3. BIR Tax Identification No. 000-065-142-000

4. PRYCE CORPORATION (formerly Pryce Properties Corporation)

5. Metro Manila, Philippines

6. Industry Classification Code:

7. 17th Floor Pryce Center, 1179 Chino Roces Avenue cor. Bagtikan St. Makati City 1203

8. (0632) 899-44-01 (Trunkline)

9. N. A.

Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA, as of June 30, 2019.

| Title of Each Class | No. of Outstanding shares |
|---|---|
| Common Shares | 2,013,090,500 |
| Treasury Shares | 11,409,500 |

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

Yes { / } No { }

Philippine Stock Exchange Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed 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 1 - FINANCIAL INFORMATION

### Item 1. Financial Statements.

Please see attached.

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

As of the first half of 2019, Pryce Corporation's (PPC's) consolidated net income rose by 25.80%, from Php 711.89 million to this year's Php 895.57 million. The company's consolidated revenues likewise grew from Php 4.83 billion to Php 5.32 billion, recording a growth of 10.08%. Sale of liquefied petroleum gas (LPG) and LPG-related products accounted for 93.97% of the group's total revenue, while sale of industrial gases, real estate, and pharmaceutical products accounted for the balance.

Liquefied Petroleum Gas (LPG) and industrial gases are products of Pryce Gases, Inc. (PGI) – a subsidiary of the parent company Pryce Corporation (PC). Real estate sales is under Pryce Corporation (PC); while vitamins and supplements are handled by Pryce Pharmaceuticals, Inc. (PPhI), also a subsidiary of PC. Oro Oxygen Corporation (OOC) is a subsidiary of PGI, which distributes LPG and industrial gases in Luzon.

**<u>Revenue and Volume Growth</u>**

The growth of 10.08% in consolidated revenues from Php 4.83 billion to Php 5.32 billion is attributable to the 12.71% increase in revenues from LPG and industrial gas products. Revenues from LPG products (consisting of sales of cooking gas, cylinders, LPG gensets, and accessories) provided the biggest contribution at P5.0 billion or 93.97% of total revenues. Revenues from the other products such as industrial gases, real estate, and pharmaceutical products aggregated to Php 320.55 million in 2019. The contribution from other products is broken down as follows: industrial gases, P220.19 million (4.14%); real estate, P75.71 million (1.42%); and pharmaceutical, P24.65 million (0.46%).

LPG sales volume, including bulk sales, increased by 7.8% for the first half of 2019, from 98,419 metric tons to 106,049 metric tons. On a regional basis, LPG sales volume rose by 5.4% in the Vis-Min region and 9.63% in Luzon.

Industrial gas sales, consisting of sales from oxygen and acetylene gases, and other gases, increased by 4.13% from P211.45 million to P220.19 million. Sales of oxygen was up by 6.85% to P163.26 million compared to the previous year's figure; sales of acetylene dipped by 2.13% to P33.09 million; while the balance was accounted for by sales of other gases which declined by 4.07% to P23.83 million. Total volume sold for all types of gases during the first semester reached 578,434 cylinders, a 9.63% growth from the previous year's figure of 527,612 on account of the improved sales in the Visayas operations.

Revenues from real estate products was P75.71 million, significantly lower by 57.92% compared to last year's sales of P179.92 million which included the sale of office condominium units. Pharmaceutical products grew by 14.08% to P24.65 million.

**Market Demand and Price Movement**

The local market demand for LPG has been on the uptrend over the last six years and is expected to continue over the next few years including 2019. The slowing inflation, relatively low unemployment, and steady OFW remittances in 2019 are expected to support household consumption, which includes LPG consumption.

The international price of LPG (or Contract Price or "CP") essentially dovetails the behavior of oil prices. The CP influences the local LPG prices which in turn affects LPG consumers' behaviour. The average CP during the first six months of 2019 was US$479 per metric ton, which is 7% lower than the average CP of US$515 per metric ton of the same period. CP for July 2019 is already low at US$361 per metric ton but with the Middle East exporting less the CP is seen to recover to an average of a little more than US$500 per metric ton over the last semester of the year. Higher LPG prices, however, tend to have a dampening effect on LPG consumption in the Vis-Min areas.

**Competition**

Based on the latest DOE report for the first quarter of 2019, PGI has a 10.1% market share nationwide. Extrapolation from the same report will indicate that in the combined Visayas-Mindanao market, PGI remains the 2nd largest player with a market share of 22%. On a regional basis, PGI's LPG sales volume increased by 5.4% in the Vis-Min region and 9.63% in the Luzon area.

**Profitability**

Even though there was an increase in the revenues of LPG product, its gross margin decreased to 21.65% from 22.87% of the prior year's first semester. This was due to the falling LPG prices worldwide in the second quarter, reducing the margin per kilogram from the sale of first quarter's inventories. Gross margin of industrial gases however rose to 48.71% from the year-ago figure of 46.41%. Gross margin of real estate sales was 69.75% of sales, higher than the 60.42% of last year's; gross margin for pharmaceutical products slid to 33.55% from the previous year's 35%.

Total income from operations amounted to P738.06 million, 9.51% down from year-ago figure of P815.67 million. However, Other Income (consisting largely of fair value gain adjustments on Financial Assets at FVPL) grew to P301.19 million from last year's P30.17 million. After adjustments for other income and expenses and provision for income tax, net income after tax grew by more than a quarter of the previous year to Php 895.57 million in 2019 from Php 711.89 million in 2018 or 25.80%. Earnings per share consequently improved by 27.42% or from Php 0.3229 per share to Php 0.4115 per share.

In the previous years, the company enjoyed income tax holidays with respect to its import terminal in San Fabian, Pangasinan but these expired last December 31, 2018; hence it will have an adverse impact on net income in the succeeding years. The company, however, is cautiously optimistic that it will achieve its target net income of Php 1.6 billion (plus or minus 10%) for the year 2019.

**Liquidity**

As of June 30, 2019, the liquid assets of the company, which mainly consisted of P826.97 million of Cash and P1,025.22 million of Financial assets at FVPL, amounted to P2.21 billion. This is an improvement of 9.88% from the audited figure of P2.01 billion as of December 31, 2018. Trade and Other Receivables, the other liquid assets of the company, reached only P358.96 million, which barely increased from the audited figure of P358.1 million as of December 31, 2018.

Current ratio as of June 30, 2019 was at 1.74:1 while total debt-to-equity ratio was at 0.38:1.

## Balance Sheet Changes

Compared to the December 31, 2018 audited accounts, the considerable movements in balance sheet accounts are as shown below.

| Account Name | % Increase or (Decrease) | Reason for Change |
|---|---|---|
| Financial assets at fair value | 27.30% | Due to increase in value of marketable securities |
| Inventories | (16.68%) | Less importation done during the period |
| Prepayments and other current assets | (24.71%) | Application of input VAT and amortization of prepayments |
| Property Plant and equipment | 6.53% | Additional capital expenditures |
| Deferred tax and other assets | 13.65% | Adjustment of provision for deferred tax |
| Income Tax payable | (37.72%) | Due to payment of income tax |
| Customers' deposits | 25.41% | Increase in collection of deposits for real estate products |
| Retirement benefit obligation | 13.26% | Additional recognition of retirement benefit expense |
| Retained earnings | 24.71% | Due to net income of H1 2019 |
| Treasury stock | 929.03% | Additional buy-back of Parent Company's shares |
| Non-controlling interest | 8.85% | Increase in net income |

### Numerical Performance Indicators

The measures of revenue growth are presented below.

| **REVENUE GROWTH** | | | |
|---|---|---|---|
| **Pryce Corporation & Subsidiaries** | | | |
| | **2019 (June 30, 2019)** | **2018 (June 30, 2018)** | Percent Growth/ (Decline) |
| REVENUE | P 5,319,745,854 | P 4,832,527,702 | 10.08% |

| **VOLUME GROWTH** | | | |
|---|---|---|---|
| **Principal Product – Liquefied Petroleum Gas** | | | |
| | **2019 (June 30, 2019)** | **2018 (June 30, 2018)** | Percent Growth/ (Decline) |
| LPG (in MT) | 106,049 | 98,419 | 7.75% |

The measurements of profitability are shown below.

| | 2019 (June 30, 2019) | 2018 (June 30, 2018) |
|---|---|---|
| Return on Assets (%) | 9.15% | 8.50% |
| Return on Equity (%) | 13.30% | 12.16% |
| Net profit margin (%) | 19.54% | 17.50% |

The liquidity measurements are shown below:

| LIQUIDITY | | |
|---|---|---|
| Pryce Corporation & Subsidiaries | | |
| | 2019 (June 30, 2019) | 2018 (June 30, 2018) |
| Current ratio | 1.74 | 1.89 |
| Debt to equity ratio | 0.38 | 0.40 |

## PART II – OTHER INFORMATION

During the 2nd quarter of 2019, the reports filed with the SEC by way of SEC 17-C pertain to Notice of Stockholders Meeting (4PM of June 28, 2019 at Makati Shangri-La); Resignation & Appointment of Officers; demise of the Corporate Secretary; and the Results of the Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors.

## SIGNATURES

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PRYCE CORPORATION**
By:

**JOSE MA. C. ORDENES**
Treasurer

**SALVADOR P. ESCAÑO**
Chairman & CEO

13 August 2019

# PRYCE CORPORATION and SUBSIDIARIES

## Financial Statements
## For the periods ended June 30, 2019 and 2018, and December 31, 2019

**PRYCE CORPORATION and SUBSIDIARIES**
**Consolidated Statements of Financial Position**
**As at June 30, 2019 (Unaudited) and December 31, 2018 (Audited)**

| | 2019 | Audited 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash - note 4 | **826,970,219** | 848,846,339 |
| Financial assets at fair value through profit or loss (FVPL) - note 5 | **1,025,221,771** | 805,336,648 |
| Trade and other receivables (net) - note 6 | **358,959,476** | 358,097,756 |
| Inventories - note 7 | **893,222,989** | 1,072,070,705 |
| Real estate projects - note 8 | **804,917,479** | 816,037,022 |
| Prepayments and other current assets - note 9 | **56,456,188** | 74,985,424 |
| | **3,965,748,122** | 3,975,373,894 |
| **Noncurrent assets** | | |
| Advances to related parties - note 20 | **136,246,958** | 131,444,881 |
| Property, plant and equipment (net) - notes 10 and 11 | **7,450,521,244** | 6,993,581,230 |
| Investment properties - note 12 | **115,497,888** | 115,497,888 |
| Deferred tax and other assets | **39,975,272** | 35,174,217 |
| Goodwill - note 13 | **78,148,305** | 78,148,305 |
| | **7,820,389,667** | 7,353,846,521 |
| **TOTAL ASSETS** | **11,786,137,789** | 11,329,220,415 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Trade and other payables - note 14 | **929,848,644** | 1,021,138,260 |
| Income tax payable | **72,536,427** | 116,468,529 |
| Customers' deposits - note 15 | **137,102,081** | 109,324,422 |
| Short-term debts - note 16 | **885,030,550** | 905,078,052 |
| Dividends payable - note 19 | **250,807,447** | 248,653,686 |
| | **2,275,325,149** | 2,400,662,949 |
| **Noncurrent liabilities** | | |
| Retirement benefit obligation - note 27 | **132,793,204** | 117,247,393 |
| Deferred tax liabilities | **696,266,633** | 714,111,829 |
| | **829,059,837** | 831,359,222 |
| **TOTAL LIABILITIES** | **3,104,384,986** | 3,232,022,171 |
| **Equity** | | |
| Equity attributable to equity holders of the Parent Company | | |
| Capital stock - note 17 | **2,024,500,000** | 2,024,500,000 |
| Additional paid-in capital | **369,834,820** | 369,834,820 |
| Retained earnings | **3,267,969,328** | 2,620,553,908 |
| Fair value gain on real estate properties - note 31 | **1,030,726,843** | 1,030,726,843 |
| Other comprehensive income - note 26 | **1,598,142,314** | 1,639,781,107 |
| Treasury stock - note 18 | **(64,484,632)** | (6,266,563) |
| | **8,226,688,673** | 7,679,130,115 |
| Non-controlling interest | **455,064,130** | 418,068,129 |
| **TOTAL EQUITY** | **8,681,752,803** | 8,097,198,244 |
| **TOTAL LIABILITIES AND EQUITY** | **11,786,137,789** | 11,329,220,415 |

*(The accompanying notes are an integral part of these consolidated financial statements)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Comprehensive Income**
**For the Period Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **REVENUES - note 21** | | |
| Liquefied petroleum and industrial gases | **5,219,382,379** | 4,630,998,452 |
| Real estate | **75,714,610** | 179,922,853 |
| Pharmaceutical products | **24,648,865** | 21,606,397 |
| | **5,319,745,854** | 4,832,527,702 |
| **COST OF SALES - note 22** | | |
| Liquefied petroleum and industrial gases | **4,029,668,810** | 3,522,025,929 |
| Real estate | **22,907,262** | 71,214,393 |
| Pharmaceutical products | **16,379,583** | 14,044,158 |
| | **4,068,955,655** | 3,607,284,480 |
| **GROSS INCOME** | **1,250,790,199** | 1,225,243,222 |
| **OPERATING EXPENSES - note 23** | **512,731,078** | 409,575,551 |
| **INCOME FROM OPERATIONS** | **738,059,120** | 815,667,670 |
| **OTHER INCOME (CHARGES) - Net** | | |
| Finance costs - note 24 | **(18,668,063)** | (12,399,831) |
| Fair value gain (loss) on financial assets at FVPL | **239,150,708** | (38,576,695) |
| Other income (net) - note 25 | **80,702,589** | 81,146,764 |
| | **301,185,234** | 30,170,238 |
| **NET INCOME BEFORE TAX** | **1,039,244,354** | 845,837,908 |
| Provision for Income Tax | **(143,675,194)** | (133,952,540) |
| **NET INCOME** | **895,569,160** | 711,885,368 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Parent Company | **829,514,292** | 653,803,673 |
| Non-controlling interests | **66,054,868** | 58,081,695 |
| | **895,569,160** | 711,885,368 |
| **EARNINGS PER SHARE - note 29** | **0.4115** | 0.3229 |

*(The accompanying notes are an integral part of these consolidated financial statements)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Changes in Equity**
**For the Period Ended June 30, 2019 and 2018 and December 31, 2018**

| | June 30 2019 | June 30 2018 | December 31 2018 Audited |
|---|---|---|---|
| **CAPITAL STOCK** | **2,024,500,000** | 2,024,500,000 | 2,024,500,000 |
| **ADDITIONAL PAID-IN CAPITAL** | **369,834,820** | 369,834,820 | 369,834,820 |
| **FAIR VALUE GAIN ON REAL ESTATE PROPERTIES** | **1,030,726,843** | 1,030,726,843 | 1,030,726,843 |
| **OTHER COMPREHENSIVE INCOME** | **1,598,142,314** | 1,681,419,903 | 1,639,781,107 |
| **RETAINED EARNINGS (DEFICIT)** | | | |
| At beginning of period | **2,620,553,908** | 1,692,745,178 | 1,692,745,178 |
| Net income for the period | **829,514,292** | 653,803,673 | 1,288,081,156 |
| Transfer of revaluation reserve deducted from operations through additional depreciation charges | **59,483,989** | 59,483,989 | 118,967,983 |
| Change in interest to Pryce Gases, Inc. resulting from increase in interest of Parent Company from 91.04% to 91.35% | **-** | - | 6,409,287 |
| Declaration of cash dividends | **(241,582,860)** | (242,940,000) | (485,649,696) |
| At end of period | **3,267,969,328** | 2,163,092,840 | 2,620,553,908 |
| **TREASURY STOCK** | **(64,484,632)** | - | (6,266,563) |
| | **8,226,688,673** | 7,269,574,406 | 7,679,130,115 |
| **NON-CONTROLLING INTEREST** | | | |
| At beginning of period | **418,068,129** | 366,516,900 | 366,516,900 |
| Net income for the period | **66,054,868** | 58,081,695 | 114,892,543 |
| Change in interest to Pryce Gases, Inc. resulting from increase in interest of Parent Company from 91.04% to 91.35% | **-** | - | (14,909,287) |
| Declaration of cash dividends | **(29,058,867)** | (24,215,723) | (48,432,027) |
| Acquisition of 8.5 million PGI common shares of non-controlling interest | **-** | (8,500,000) | - |
| At end of period | **455,064,130** | 391,882,872 | 418,068,129 |
| **TOTAL EQUITY** | **8,681,752,803** | 7,661,457,278 | 8,097,198,244 |

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**
**For the Period Ended June 30, 2019 and 2018 and December 31, 2018**

| | **June 30 2019** | June 30 2018 As Restated | December 31 2018 Audited |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **1,039,244,354** | 845,837,908 | 1,718,847,737 |
| Adjustments for : | | | |
| Depreciation - notes 10 and 11 | **188,961,730** | 153,720,743 | 368,917,645 |
| Retirement benefit expense | **15,545,810** | 14,400,072 | 25,321,034 |
| Finance costs - note 24 | **18,668,063** | 12,399,831 | 34,178,845 |
| Unrealized loss (gain) on financial assets at FVPL - note 5 | **(239,150,708)** | 38,576,695 | 47,020,829 |
| Gain on sale of financial assets at FVPL - note 25 | **(42,470,800)** | (12,737,442) | (32,102,718) |
| Dividend income - note 25 | **(24,205,693)** | (19,884,655) | (40,734,023) |
| Income from reversal of allowance for doubtful accounts | **-** | - | (30,589,742) |
| Interest income - note 25 | **(711,277)** | (204,657) | (1,334,974) |
| Unrealized foreign exchange gain | **-** | - | (6,411,820) |
| Gain on sale of property, plant and equipment | **(306,966)** | (25,171,600) | (30,446,891) |
| Operating income before working capital changes | **955,574,513** | 1,006,936,895 | 2,052,665,922 |
| Decrease (increase) in assets: | | | |
| Trade and other receivables | **(861,720)** | (125,980,615) | 3,950,785 |
| Inventories | **178,847,716** | (85,407,971) | (284,499,739) |
| Prepayments and other current assets | **18,529,236** | 11,211,399 | (6,773,320) |
| Real estate projects | **11,119,543** | 58,437,825 | 28,627,414 |
| Increase (decrease) in liabilities: | | | |
| Trade and other payables | **(91,289,615)** | 104,735,539 | 291,298,464 |
| Customers' deposits | **27,777,659** | 48,528,232 | (30,784,877) |
| Net cash from operations | **1,099,697,332** | 1,018,461,304 | 2,054,484,649 |
| Additions to financial assets at FVPL - note 5 | **(52,035,878)** | (182,274,556) | (896,370,802) |
| Proceeds from sale of financial assets at FVPL | **113,772,262** | 403,486,179 | 806,396,445 |
| Dividends received - note 25 | **24,205,693** | 19,884,655 | 40,734,023 |
| Interest received | **711,277** | 204,657 | 1,334,974 |
| Income taxes paid | **(187,607,296)** | (142,610,125) | (288,038,998) |
| Contributions and retirement benefits paid | **-** | (60,016,392) | (40,129,777) |
| Net cash from operating activities | **998,743,391** | 1,057,135,722 | 1,678,410,514 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment - notes 10 and 11 | **(647,224,560)** | (814,676,853) | (1,666,673,157) |
| Proceeds from sale of property, plant and equipment | **1,629,781** | 27,580,481 | 51,583,572 |
| Collection of advances to related parties | **-** | 82,698,764 | - |
| Grant of advances to related parties | **(4,802,077)** | - | - |
| Increase in deferred tax and other assets | **(4,801,055)** | - | - |
| Net cash used in investing activities | **(655,197,911)** | (704,397,608) | (1,615,089,585) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from availment of short-term debts | **1,498,581,750** | 906,715,790 | 1,773,740,046 |
| Settlement of advances from related parties | **-** | - | - |
| Finance costs paid | **(18,668,063)** | (12,399,831) | (34,178,845) |
| Payment of short-term debts | **(1,518,629,252)** | (550,000,000) | (1,218,661,994) |
| Payment of dividends | **(268,487,966)** | (266,308,809) | (528,368,037) |
| Acquisition of shares from non-controlling interest | **-** | (15,980,000) | (15,980,000) |
| Acquisition of treasury stocks | **(58,218,069)** | - | (6,266,563) |
| Net cash from (used in) financing activities | **(365,421,600)** | 62,027,150 | (29,715,393) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | **-** | - | 6,411,820 |
| **NET INCREASE (DECREASE) IN CASH** | **(21,876,120)** | 414,765,263 | 40,017,356 |
| **CASH - note 4** | | | |
| **AT BEGINNING OF PERIOD** | **848,846,339** | 808,828,983 | 808,828,983 |
| **AT END OF PERIOD** | **826,970,219** | 1,223,594,246 | 848,846,339 |

*(The accompanying notes are an integral part of these consolidated financial statements.)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Comprehensive Income**

| | Period April 1 to June 30 | |
|---|---|---|
| | **2019** | 2018 |
| **REVENUES** | | |
| Liquefied petroleum and industrial gases | **2,699,797,070** | 2,314,079,571 |
| Real estate | **43,406,056** | 155,182,725 |
| Pharmaceutical products | **11,126,395** | 10,279,435 |
| | **2,754,329,521** | 2,479,541,731 |
| **COST OF SALES** | | |
| Liquefied petroleum and industrial gases | **2,109,008,116** | 1,726,169,053 |
| Real estate | **13,261,613** | 66,710,929 |
| Pharmaceutical products | **6,913,855** | 6,602,632 |
| | **2,129,183,584** | 1,799,482,614 |
| **GROSS PROFIT** | **625,145,937** | 680,059,117 |
| **OPERATING EXPENSES** | **279,654,393** | 205,100,827 |
| **INCOME FROM OPERATIONS** | **345,491,544** | 474,958,290 |
| **OTHER INCOME (CHARGES)** | **262,706,040** | (23,333,276) |
| **NET INCOME BEFORE TAX** | **608,197,584** | 451,625,014 |
| Provision for Income Tax | **(74,976,316)** | (80,071,146) |
| **NET INCOME** | **533,221,268** | 371,553,868 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Parent Company | **496,217,368** | 340,075,299 |
| Non-controlling interests | **37,003,900** | 31,478,569 |
| | **533,221,268** | 371,553,868 |
| **EARNINGS PER SHARE** | **0.2464** | 0.1680 |

*(The accompanying notes are an integral part of these consolidated financial statements)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements**
As at and for the periods ended June 30, 2019 and December 31, 2018
(Expressed in Philippine Peso)

## 1. CORPORATE INFORMATION

**Pryce Corporation** (the “Parent Company”) and its Subsidiaries (collectively referred to as the “Group”) were incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on various dates as follows:

| Name of company | Date of incorporation |
|---|---|
| Pryce Corporation (Parent Company) | September 7, 1989 |
| Pryce Gases, Inc. (PGI) | October 8, 1987 |
| Oro Oxygen Corporation (OOC) | April 4, 2006 |
| Pryce Pharmaceuticals, Inc. (PPhI) | March 10, 2000 |

The Parent Company is primarily engaged in acquiring, purchasing, leasing, holding, selling or otherwise dealing in land and or real estate or any interest or right therein as well as real or personal property of every kind and description including but not limited to shares of stock in industrial, commercial, manufacturing and any other similar corporations.

The Parent Company is a publicly-listed company which is 50.24% owned by Guild Securities, Inc., and 49.76% owned by PCD Nominee Corporation and other entities and individuals. The Parent Company’s stock price amounted to ₱5.09 and ₱5.75 as at June 30, 2019 and December 31, 2018, respectively.

The Parent Company’s registered office address is 17$^{th}$ Floor Pryce Center, 1179 Don Chino Roces Avenue cor. Bagtikan Street, Makati City.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries it controls:

PGI

PGI is primarily engaged in the manufacture, production, purchase, sale and trade of all kinds of liquids and gases and other chemicals, other allied or related products, lease, operate, manage and construct and/or install for or on account of others, plants, equipment and machineries for the manufacture or production or distribution of the desired liquids and gases and other allied products. As at June 30, 2019, PGI has eight (8) liquefied petroleum gas (LPG) marine-fed terminals and sixty-six (66) refilling plants of varying storage capacities.

Certain operations of PGI is registered with the Board of Investments (BOI) and entitled to Income Tax Holiday (ITH) provided under Republic Act 8479, otherwise known as the Downstream Oil Deregulation Act of 1998 (see Note 30).

PGI’s registered office address is 17th Floor Pryce Center, 1179 Don Chino Roces Avenue cor. Bagtikan Street, Makati City.

On February 19, 2018, the Parent Company acquired 8,500,000 shares of PGI from Marubeni Corporation for ₱15.98 million resulting to an increase in percentage (%) of ownership from 91.04% to 91.35%.

OOC

OOC is primarily engaged in the purchase, importation, sale and distribution and manufacture and/or production of all kinds of gases including LPG, industrial gases, such as oxygen, acetylene, hydrogen, nitrogen, argon, carbon dioxide, nitrous oxide, compressed air and helium and other allied or related products, including its containers, equipment and other receptacles.

OOC's registered office address is 1st Lower Level Pryce Plaza Hotel, Carmen Hill, Cagayan de Oro City.

PGI owned 99.62% of the shares issued by OOC. The increase in stock ownership of the Parent Company to PGI resulted to an increase in percentage of ownership of the Parent Company to OOC from 90.69% to 91.00%.

PPhI

PPhI is primarily engaged in the trading of pharmaceutical products on wholesale and retail basis. The Subsidiary's registered office address is LGF Skyland Plaza, corner Gil Puyat Avenue and Tindalo Street, Makati City.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized in this note. The policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in conformity with Philippine Financial Reporting Standards (PFRS), except for the recognition of fair value gain on real estate properties transferred by the Parent Company to PGI as equity contribution, which have been taken up in the books and records of the Parent Company at cost instead of fair value as required under PFRS 3, *Business Combination*. The Group concluded that applying the said standard would be so misleading that it would conflict with the objectives of the consolidated financial statements set out in the Framework (see Note 31).

The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment, which have been measured using the revaluation model, and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. 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, regardless of whether that price is directly observable or estimated using another valuation technique.

The consolidated financial statements are presented in Philippine peso (₱), the Group's functional and presentation currency. All amounts are rounded to the nearest peso except when otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and all subsidiaries it controls (see Note 1). Control is achieved when the Parent Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

When the Parent Company has less than a majority of the voting or similar rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether or not it has power over an investee, including:

- the contractual agreement with the other vote holders of the investee;
- rights, arising from contractual agreements; and
- the Group's voting rights and potential voting rights.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to equity holders of the Parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting year, using accounting policies that are consistent with those of the Parent Company. Intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Non-controlling interest represents the portion of profits or losses and net assets of consolidated subsidiaries not held by the equity holders of the Parent Company, and is presented separately in the consolidated statements of comprehensive income, consolidated statements of changes in equity and within the equity section of the consolidated statements of financial position, separately from equity attributable to the equity holders of the Parent Company.

Changes in the ownership interests in subsidiaries that do not result in the loss of control are accounted for as equity transactions.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss.

The percentage (%) of ownership of the Parent Company as at June 30, 2019 and December 31, 2018 follows:

| | Ownership and voting interest | |
|---|---|---|
| Name of subsidiary | 2019 | 2018 |
| PGI | 91.35% | 91.35% |
| OOC | 91.00% | 91.00% |
| PPhI* | 88.66% | 88.66% |

** Includes indirect equity ownership of 13.66%.*

The summarized financial information in respect of the subsidiaries that have material non-controlling interest is set below:

The summarized statements of financial position as at June 30, 2019 and December 31, 2018 are as follows:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **PGI** | **OOC** | **PPhI** | PGI | OOC | PPhI |
| Total current assets | **₱2,150,366,825** | **₱171,745,082** | **₱28,958,948** | ₱2,238,534,547 | ₱183,344,785 | ₱20,674,542 |
| Total noncurrent assets | **7,112,322,955** | **544,889,143** | **1,293,542** | 6,736,411,400 | 542,188,507 | 792,718 |
| Total assets | **9,262,689,780** | **716,634,225** | **30,252,490** | 8,974,945,947 | 725,533,292 | 21,467,260 |
| Current liabilities | **1,631,403,172** | **19,842,418** | **17,743,973** | 1,818,835,532 | 14,963,124 | 8,678,639 |
| Noncurrent liabilities | **801,503,399** | **153,555,973** | **971,291** | 765,162,894 | 171,498,383 | 1,971,291 |
| Total liabilities | **2,432,906,571** | **173,398,391** | **18,715,264** | 2,583,998,426 | 186,461,507 | 10,649,930 |
| Equity | **₱6,829,783,209** | **₱543,235,834** | **₱11,537,226** | ₱6,390,947,521 | ₱539,071,785 | ₱10,817,330 |

The summarized statements of comprehensive income for the periods ended June 30, 2019 and 2018 are as follows:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **PGI** | **OOC** | **PPhI** | PGI | OOC | PPhI |
| Revenues | **₱5,360,083,766** | **₱57,687,174** | **₱24,648,865** | ₱4,637,615,701 | ₱120,699,738 | ₱21,606,397 |
| Expenses | **(4,466,997,535)** | **(51,768,007)** | **(23,620,442)** | (3,859,687,294) | (117,416,813) | (20,959,166) |
| Income tax expense | **(134,722,705)** | **(1,755,118)** | **(308,527)** | (109,519,022) | (917,466) | (194,169) |
| Net income | **758,363,526** | **4,164,049** | **719,896** | 668,409,385 | 2,365,459 | 453,062 |
| Other comprehensive income | **-** | **-** | **-** | - | - | - |
| | **₱758,363,526** | **₱4,164,049** | **₱719,896** | ₱668,409,385 | ₱2,365,459 | ₱453,062 |
| Net income attributable to: | | | | | | |
| Equity holders of the Parent Company | **692,765,081** | **3,789,285** | **638,237** | 610,591,973 | 2,152,568 | 401,670 |
| Non-controlling interest | **65,598,445** | **374,764** | **81,659** | 57,817,412 | 212,891 | 51,392 |
| | **₱758,363,526** | **₱4,164,049** | **₱719,896** | ₱668,409,385 | ₱2,365,459 | ₱453,062 |

Impact of the Revised Corporation Code of the Philippines

The Republic Act No. 11232 otherwise known as the Revised Corporation Code of the Philippines (the "Revised Code") took effect on February 23, 2019, which aimed at improving ease of doing business, affording more protection to corporations and stockholders, and promoting good corporate governance.

The Revised Code should be applied prospectively. The requirement to prepare and submit the annual financial statements based on the Revised Code is effective beginning on or after February 23, 2019. All financial statements covering the periods on or before February 22, 2019 are required to be prepared and submitted in accordance with the Old Corporation Code or Batas Pambansa Bilang 68, in addition to the requirements of the SRC Rule 68.

This will have no impact on the preparation and submission of the Group's consolidated financial statements.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2018.

PFRS 9, *Financial Instruments (2014)*

PFRS 9, *Financial Instruments* replaces PAS 39 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The standard requires all recognized financial assets that are within the scope of PAS 39 to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether the contractual cash flows on debt instruments solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount in accordance with PAS 39 and PFRS 9 as of Janary 1, 2018 are compared as follows:

| | Original measurement category under PAS 39 | New measurement category under PFRS 9 |
|---|---|---|
| Cash in banks | Loans and receivables | Amortized cost |
| Equity instrument held for trading | Financial assets at FVPL | Financial assets at FVPL |
| Trade and other receivables | Loans and receivables | Amortized cost |
| Advances to a related party | Loans and receivables | Amortized cost |

The carrying amount of the financial assets are not affected by the change in classification as the basis of measurement under PAS 39 and PFRS 9.

The Group does not have financial assets and financial liabilities which had previously been designated at FVPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or fair value through other comprehensive income (FVOCI) upon transition to PFRS 9.

The application of the PFRS 9 has no impact on the classification and measurement of the Group's financial liabilities.

(b) Impairment testing under expected credit loss (ECL) model

There is no remeasurement loss recognized in retained earnings as at January 1, 2018. The use of ECL, upon adoption of PFRS 9, did not result to any material additional impairment loss.

For receivables arising from sale of real estate, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime ECL. The Group does not track changes in credit risk, but instead recognize loss allowance based on lifetime ECL at each reporting date.

For trade and other receivables, other than those arising from sale of real estate, the Group has also applied the standard's simplified approach and has also calculated ECL based on lifetime ECL.

For advances to related parties, the Group has applied the standard's general approach where the Group must determine whether the credit risk has not increased significantly since initial recognition (Stage 1), the credit risk has increased significantly since initial recognition (Stage 2), or the financial assets are credit-impaired (Stage 3).

The key inputs in the ECL model include the Group's definition of default and historical data for the origination, maturity date and default date. The Group considers receivables in default when the Group forfeits and reposseses the property from the customer through cancellation. However, in certain cases, the Group may also consider financial assets to be in default when internal and external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

The probability of default is applied to the estimate of loss arising on default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including repossession of subject memorial lawn lots and real estate projects, net of cash outflows.

The above process resulted to zero loss given default, thus, no impairment loss is recognized. The Group determines that the fair value of the real property which will be repossessed in case of default is higher than the outstanding balance and that forward-looking information indicates low credit risk.

The Group assessed that the adoption of PFRS 9, specifically on the determination of impairment loss using simplified approach has no significant impact on the carrying amounts of the Group's financial assets.

PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the framework to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has adopted PFRS 15 *Revenues from Contracts with Customers* from January 1, 2018. The effects of the adoption is summarized below:

(a) Sale of LPG, cylinders, stoves, accesories and industrial gases

Based on the Group's assessment, the Group has concluded that revenues from sale of LPG and industrial gases should be recognized at a point in time when control of the asset is transferred to the customer, which is upon delivery of goods. The adoption has no impact on the January 1, 2018 consolidated financial statements since the Group has been recognizing revenue in the same manner.

(b) Sale of memorial lots

Under PFRS 15, the Group has concluded that revenue from sale of memorial lots should be recognized at the point in time when control of the asset is transferred to the customer, generally when lawn lots are allowed to be used for burial which is upon 100% payment of purchase of lawn lot and upon 50% payment of family estate. The adoption has no impact on the consolidated financial statements since the Group has been recognizing revenue in the same manner.

(c) Sale of subdivision lots and office units

Before the adoption of PFRS 15, revenues from sale of subdivision lots and office units are recognized in full when substantially complete and upon receipt of sufficient down payment, provided that the profit is reliably determinable; that is, the collectability of the sales price is reasonably assured or the amount that will not be collected can be estimated reliably, and the earning process is virtually complete, that is the seller is not obliged to perform significant activities after the sale to earn the profit.

Under PFRS 15, the Group has concluded that revenue from sale of subdivision lots and office units should be recognized at a point in time when control is transferred to the customer which normally happens upon turnover of subdivision lots and office units to the buyer.

The adoption has no significant impact on the consolidated financial statements since all of its projects pertaining to subdivision lots and office units are completed.

(d) Sale of pharmaceutical products

The Group has concluded that revenues from sale of pharmaceutical products should be recognized at a point in time when control of the asset is transferred to the customer, which is upon delivery of goods. The adoption has no impact on the January 1, 2018 consolidated financial statements since the Group has been recognizing revenue in the same manner.

The recognition and measurement of PFRS 15 also apply to gains or losses on disposal of non-financial assets (such as property, plant and equipment and investment property), when that disposal is not in the ordinary course of business. However, in relation to transition to PFRS 15, the effects of these changes is not material for the Group.

PAS 40 (Amendment), *Investment Property – Transfers of Investment Property*

The amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The application of the amendments provides two options for transition: (a) An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments; or (b) retrospective application if, and only if, that is possible without the use of hindsight. The amendments have no material impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2018

Standards issued but not yet effective up to the date of the Group consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

*Annual Improvements to PFRSs 2015-2017 Cycle*

The annual improvements addressed the following issues:

PAS 12 (Amendment), I*ncome Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity*. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

PAS 23 (Amendment), *Borrowing Costs – Borrowing Costs Eligible for Capitalization*_The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The above improvements are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The application of the above improvements will have no significant impact on the disclosures and amounts recognized on the Group's consolidated financial statements. All of the Group's dividends are exempt from income tax and all of the Group's borrowings are expensed as incurred.

PAS 19 (Amendment), *Employee Benefits – Plan Amendment, Curtailment or Settlement*

The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendments also clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

This amendment will have no significant impact on the disclosures and amounts recognized in the Group's consolidated financial statements. Currently, the Group has no plan on amending its retirement benefit plan.

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

This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The interpretation will have no significant impact on the Group's consolidated financial statements since the Group is recognizing its income taxes in accordance with PAS 12 *Income Taxes.*

PFRS 16, *Leases*

This new standard introduces a single lessee accounting model to be applied to all leases, whilst substantially carries forward the lessor accounting requirements in PAS 17 Leases. Lessees recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. Whereas, lessors continue to classify leases as operating leases or finance leases, and to account for those two (2) types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

The adoption of the standard will result in recognition of an asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make lease payments in the consolidated statements of financial position. In addition, this will result in recognition of depreciation on the right of use asset and interest on lease liability in the consolidated statement of comprehensive income, and presentation of the total amount of cash paid into a principal portion and interest within financing activities in the consolidated statements of cash flows.

A lessee can choose to apply the standard using either full retrospective or a modified retrospective approach. The standard’s transition provision permits such relief.

The Group expects the standard to have an impact on its operating lease agreements for sales offices, LPG refilling plants, LPG tank storages and land for the use of its operations which will require recognition of the right-of-use assets in the books and its related lease liability. Further, instead of rent expense, the Group will recognize amortization of right-of-use asset and finance cost.

PFRS 3 (Amendment), *Business Combinations – Definition of a Business*

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. In addition, it provides guidance and illustrative examples to help entities assess whether a substantive process has been acquired and remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendment also adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments will not have an impact on the disclosures and amounts recognized on the Group’s consolidated financial statements.

Determination of fair value and fair value hierarchy

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 by the Group.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market 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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for nonrecurring measurement, such as investment properties.

For the purpose of fair value disclosures, the Group 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 explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 35 to the consolidated financial statements.

*"Day 1" Difference*

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

<u>Financial instruments</u>

*Initial recognition, measurement and classification*

The Group recognizes financial assets and financial liabilities in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

With the exception of trade receivables that do not contain a significant financing component, financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred. Trade receivables that do not contain a significant financing component are recognized initially at their transaction price.

The Group classifies its financial assets as subsequently measured at amortized cost and FVPL. The classification of financial assets depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group classifies its financial liabilities as subsequently measured at amortized cost using the EIR.

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

*Financial assets at amortized cost*

Financial assets are measured at amortized cost when both of the following conditions are met:

- the financial asset is held within a business model whose objective is 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.

After initial measurement, financial assets at amortized cost are subsequently measured using the EIR method less allowance for impairment. Gains and losses are recognized in the profit or loss when the financial assets at amortized cost are derecognized, modified or impaired. These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at June 30, 2019 and December 31, 2018, included under financial assets at amortized cost are the Group's cash, trade and other receivables (except advances to contractors and suppliers), and advances to related parties (see Notes 4, 6 and 20).

Cash includes cash on hand and demand deposits.

Trade and other receivables represent the Group's right to an amount of consideration that is unconditional.

*Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, 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.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model.

As at June 30, 2019 and December 31, 2018, included under financial assets at FVPL are the Group's listed equity investments held for trading which the Group has not irrevocably elected to classify at FVOCI (see Note 5).

*Financial liabilities at amortized cost*

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the EIR.

The EIR is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

As at June 30, 2019 and December 31, 2018, included in financial liabilities at amortized cost are the Group's trade and other payables (excluding deposit for park interment services and due to government agencies), short-term debts, and dividends payable (see Notes 14, 16, and 19).

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables include non-trade payables and accrued expenses. Trade and other payables are classified as current liabilities if payment is due within one (1) year or less or in the normal operating cycle of the business, if longer, while non-trade payables are classified as current liabilities if payment is due within twelve (12) months or less. If not, these are presented as noncurrent liabilities.

Short-term debts represent cash payable to bank which are due within twelve (12) months.

Dividends payable represent dividends declared which remain unclaimed by stockholders as at the end of the reporting period.

*Amortized cost and EIR method*

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the EIR method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the EIR for debt instruments measured subsequently at amortized cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the EIR to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the EIR to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the EIR to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted EIR to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

For financial assets other than purchased or originated credit-impaired financial assets, the EIR is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated by discounting the estimated future cash flows, including ECL, to the amortized cost of the debt instrument on initial recognition.

Interest income is recognized under Other income (net) in the consolidated statements of comprehensive income.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statements 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 assets and settle the liabilities simultaneously.

Derecognition of financial assets and liabilities

*Financial assets*

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where 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 amounts is recognized in the consolidated statements of comprehensive income.

Impairment of financial assets

The Group recognizes an allowance for ECL for all debt instruments that are measured at amortized cost. ECL are a probability-weighted estimate of credit losses over twelve (12) months or over the expected life of the financial asset depending on the degree of risk of default.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For receivables arising from sale of real estate, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime ECL. The Group does not track changes in credit risk, but instead recognize loss allowance based on lifetime ECL at each reporting date. The loss allowance shall only be adjusted if there is a decline in the fair value of real property which may be repossessed in case of default and such decline will render the fair value of the real property lower than the outstanding balance of the financial instruments.

For receivables other than those arising from sale of real estate, the Group assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECL. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECL. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12- month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

When the credit risk on financial instruments for which lifetime ECL have been recognized subsequently improves, and the requirement for recognizing lifetime ECL is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Group recognizes impairment loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

*Significant increase in credit risk*

Significant increase in credit risk is only assessed for receivables other than those arising from sale of real estate.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group 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. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet

its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on receivables other than those arising from sale of real estate has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default; and
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and 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 Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than thirty (30) days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;

or

- decrease in the net realizable value of the real estate property which can be recovered from the debtor of sale of real estate if it defaults.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables arising from sale of real estate, when the real estate property which can be recovered if the debtor defaults is no longer saleable. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Inventories

Inventories are composed of four (4) product lines namely: (1) LPG, cylinders, stoves and accessories, (2) industrial gases (3) real estate projects and (4) pharmaceutical products.

Inventories are initially measured at cost and subsequently measured at the lower of cost or net realizable value (NRV).

Cost consists of purchase price, conversion costs and other costs incurred in bringing the inventories to its present location and condition. Cost of real estate projects also include expenditures for the development and improvement of subdivision lots and memorial lots, and construction of the office units.

Cost of LPG, cylinders, stoves and accessories and industrial gases is determined using moving average method. Cost of real estate projects is determined using specific identification. And, cost of pharmaceutical products is determined primarily on the basis of first-in, first-out (FIFO) method. Cost of products sold includes invoice cost, excise taxes, overhead, freight and handling cost, refilling costs and excludes borrowings costs.

LPG, cylinders, stoves, accessories and industrial gases are classified as follows:

- *Raw materials* – pertain to calcium carbide and liquid oxygen used in the production of acetylene under industrial gases line.

- *Finished goods* – composed of two (2) product lines such as, (1) LPG, cylinders, stoves and accessories, and (2) industrial gases.

LPG, cylinders, stoves and accessories includes LPG bulk, content, and LPG already filled in the cylinders. LPG accessories pertain to burners and regulators.

Industrial gases pertain to oxygen and acetylene and other related gases which are produced and sold in the market.

- *General supplies* – include cylinder maintenance, electric and oxygen supplies used for production.

NRV for finished goods is the estimated selling price in the ordinary course of business less the estimated cost of marketing and distribution. NRV for raw materials and materials and supplies is the current replacement cost. In case of supplies, NRV is the estimated realizable value of the supplies when disposed of at their condition at the end of reporting period.

When the NRV of the inventories is lower than the cost, the Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. Any increase in NRV in excess of the expense previously recognized is not recognized.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Prepayments and other current assets

Prepayments are expenses paid in cash and recorded as asset before they are used or consumed, as the service or benefit will be received in the future. Prepayments expired are recognized as expense either with the passage of time or through use or consumption.

This account is mainly composed of prepaid rent, taxes and licenses, insurance, maintenance, input valued-added tax (VAT), deferred charges and other prepaid items. Prepaid rent, insurance, maintenance and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

Input VAT is the indirect tax paid by the Group on the local purchase of goods or services from a VAT-registered person. Input VAT is deducted against output tax in arriving at the VAT due and payable.

Deferred charges represent project development cost paid in advance but has not yet been incurred as at year-end.

Prepayments and other current assets that are expected to be realized for not more than twelve (12) months after the end of the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses.

Property, plant and equipment

Property, plant and equipment are initially measured at cost. The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location of its intended use, and the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. Expenditures for additions, major improvements and renewals are capitalized.

Subsequent to initial recognition, its property, plant and equipment are measured using cost model and revaluation model.

*(a) Revaluation model*

The Group's land and land improvements, buildings and structures, machinery and equipment, oxygen and acetylene cylinders and hotel and office equipment are subsequently measured using revaluation model. Buildings and structures and machinery and equipment which are measured using revaluation model pertain to those which are specifically for industrial gases. These are carried at revalued amount, being the fair value at the date of revaluation as determined by an independent appraiser, less subsequent depreciation and impairment, provided that the fair value can be measured reliably. Additions subsequent to the date of appraisal are stated at revalued amount.

Revaluation is carried out regularly, so that the carrying amounts do not differ materially from its fair value as at the reporting date. If a revaluation results in an increase in value, it is credited to Revaluation reserves unless it represents the reversal of a revaluation decrease previously recognized as an expense, in which case it is recognized in profit or loss. A decrease arising as a result of a revaluation is recognized as an expense to the extent that it exceeds any amount previously credited to Revaluation reserves.

Depreciation of property, plant and equipment at revalued amount commences once the property, plant and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property, plant and equipment as follows:

| | In Years |
|---|---|
| Land and land improvements | 40 |
| Buildings and structures | 20-40 |
| Oxygen and acetylene cylinders | 15 |
| Machinery and equipment | 9-10 |
| Hotel and office equipment | 9 |

The useful lives and depreciation method are reviewed annually to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When these are disposed of, any Revaluation reserves are transferred directly to retained earnings. The transfer to retained earnings should not be made through profit or loss.

*(b) Cost model*

The Group's LPG plant, machinery and equipment, transportation equipment, leasehold improvements, furniture, fixtures and equipment, construction in-progress and other buildings and structures are subsequently measured using cost model. Buildings and structures and machinery and equipment which are measured using cost model pertain to those which are specifically for LPGs. These are stated at cost less accumulated depreciation and any impairment in value.

Depreciation of property, plant and equipment at cost commences once the property, plant and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property, plant and equipment as follows:

| | In Years |
|---|---|
| Buildings and structures | 20-40 |
| LPG plant, machinery and equipment | 20 |
| Leasehold improvements | 5-15 |
| Machinery and equipment | 9 |
| Transportation equipment | 5-6 |
| Furniture, fixtures and equipment | 5 |

Construction in progress (CIP) is stated at cost. This includes cost of construction, borrowing cost, plant and equipment and any other direct cost. CIP is not depreciated. Upon completion, these are reclassified to the specific Property, plant and equipment (net) accounts.

Leasehold improvements are depreciated over its useful life, which is shorter than the lease term.

The useful lives and depreciation method are reviewed annually to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.
Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

When property, plant and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, is measured initially at cost, including transaction costs. Cost includes purchase price and any other cost directly attributable to bringing the assets to its working condition and location for its intended use. Subsequent to initial recognition, investment properties are measured at cost less impairment loss, if any.

Subsequent expenditures relating to an item of investment properties that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. The fair value less cost of disposal is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statements of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for that asset in prior years.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

As at June 30, 2019 and December 31, 2018, included in investment properties are the Group's land and memorial lots, which are held for lease and capital appreciation, respectively.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business acquisition over the fair values of the identifiable net assets and liabilities acquired. Subsequent to initial recognition, it is measured at cost less any accumulated impairment losses.

Should the fair values of the identifiable net assets and liabilities acquired exceeds the cost of business acquisition, the resulting gain is recognized as a bargain purchase in the consolidated statements of comprehensive income. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of the CGU and part of the operation within that unit is disposed of the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and portion of the CGU retained.

When a subsidiary is sold, the difference between the selling price and the net assets plus the carrying amount of goodwill is recognized in the consolidated statements of comprehensive income.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the amount of the CGU to which the goodwill has been allocated (or to the aggregate carrying amount of a group of CGU to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statements of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of each reporting period.

Impairment of non-financial assets except inventories and goodwill

At the end of each reporting period, the Group assesses whether there is any indication that any of its assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognized in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Customers' deposits

Customers' deposits pertain to amount paid in advance by customers in exchange of memorial lots or residential units which have not yet met the Group's revenue recognition criteria.

Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statements of comprehensive income in the period incurred.

Leases

Lease is classified at the inception period as a finance lease or an operating lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Group as a lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

*Group as a lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged in the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

Income taxes

The tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused 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, carry-forward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date, the Group reassesses the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

*Short-term employee benefits*

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve (12) months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement benefits obligation*

The Group provides retirement benefits to employees through a defined benefit plan. A defined benefits plan is a pension plan that determines the amount of pension benefit an employee would receive upon retirement, usually dependent on several factors such as age, salary and length of service.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset.

Retirement benefits expense comprises the following:

- Service cost
- Net interest on the defined benefit liability or asset
- Remeasurement of net defined benefit liability or asset

Service cost, which includes current service cost and gains and losses on settlement are recognized as expense in the consolidated statements of comprehensive income.

Past service cost is recognized as an expense at the earlier of the date when a plan amendment or curtailment occurs and the date when an entity recognizes any termination benefits, or related restructuring costs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statements of comprehensive income.

Remeasurements comprising actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified in the consolidated statements of comprehensive income in subsequent periods. All remeasurements are recognized in Remeasurement gains (loss) on retirement benefits obligation account under other comprehensive income, and is presented in the consolidated statements of financial position, are not reclassified to another equity account in subsequent periods.

*Termination benefits*

A termination benefit liability is recognized at the earlier of the following dates:

- when the Group can no longer withdraw the offer of those benefits, which occurs when employee accept offer of benefits on termination, and as a result of the Group's decision to terminate an employee's employment, or

- when the Group recognizes costs for restructuring which involves the payment of termination benefits.

Termination benefits are measured in accordance with the nature of employee benefit, whether short-term employee benefit, post-employment benefit or other long-term employee benefits.

Related party relationships and transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party relationship exists when: (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; and (b) when any of the following conditions apply: (i) an entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party; (v) the entity is a post-employment benefit plan for the benefit of employees of the reporting entity; (vi) the entity is controlled or jointly controlled by a person as identified in (a) above; (vii) the entity or any member of a group of which it is part, provides key management personnel services to the reporting entity or to the parent of the reporting entity; (viii) a person identified in (a) above has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

*Capital stock* represents the par value of the shares issued and outstanding as at reporting date.

*Additional paid-in capital (APIC)* includes any premiums received on the issuance of capital stock. Incremental costs directly attributable to the issue of new shares are deducted from APIC, net of tax. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one (1) class of stock, a separate account is maintained for each class of stock and the number of shares issued.

*Retained earnings* represent accumulated earnings and losses of the Group, and any other adjustments to it as required by other standards, less dividends declared.

*Treasury stocks* represent own equity instruments reacquired, the amount of the consideration paid, including directly attributable cost, net of any tax effects, is recognized as a reduction from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized as APIC. Voting rights related to treasury stocks are nullified for the Group 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 APIC to the extent of the specific or average APIC when the shares were issued and to retained earnings for the remaining balance.

<u>Dividend distribution</u>

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the Parent Company's BOD. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of the reporting period are dealt with as a non-adjusting event after the end of reporting period.

<u>Revenue recognition</u>

Revenue is recognized when control of the goods or services are transferred to customer at an amount that reflects the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue from the following sources:

*(a) Sale of LPG, cylinders, stoves, accessories and industrial gases*

Revenue from sale of LPG, cylinders, stoves, accessories and industrial gases are recognized when control of the goods has transferred, being at the point the customer purchases the goods at refilling plant terminal and retail outlet and when the goods have been shipped to the wholesaler's specific location.

*(b) Sale of real estate*

Revenues from sale of real estate arise from sale of memorial lots, subdivision lots and office units.

Revenues from sale of memorial lots are recognized at a point in time when control of the asset is transferred to the customer, generally when lots are allowed to be used for burial which is upon 100% payment for purchase of lawn lot and upon 50% payment for purchase of family estate.

Revenues from sale of subdivision lots and office units are recognized at a point in time when control is transferred to the customer which normally happens upon turnover of subdivision lots and office units to the buyer.

*(c) Sale of pharmaceutical products*

Revenues from sale of pharmaceutical products are recognized at a point in time when control of the asset is transferred to the customer which is upon sale of pharmaceutical products to customer.

*(d) Revenues arising from hotel operations*

Revenues are recognized when services are rendered, while those from banquet and other special events are recognized when the events take place. These are shown under hotel operations account in the Group's statements of comprehensive income.

*(e) Interest income*

Interest is recognized on a time proportion basis using the effective interest method.

*(f) Dividend income*

Dividend income is recognized when the Group's right to receive payment is established. The right to receive payment is usually established when the dividend is declared by BOD.

*(g) Other comprehensive income*

Other comprehensive income comprises items of income and expenses, including items previously presented under the consolidated statements of changes in equity, that are not recognized in profit or loss for the year in accordance with PFRS.

*(h) Other income*

Other income is recognized when earned.

Expense recognition

Cost and expenses are recognized in the consolidated statements of comprehensive income when decrease in the future economic benefit related to a decrease in an asset or an increase in liability has arisen that can be measured reliably.

Cost of of LPG, cylinders, stoves, accessories, industrial gases and pharmaceutical products sold is recognized as expense when the related goods are sold.

Cost of real estate projects sold is determined based on the actual development costs incurred to date plus estimated cost to complete the project as determined by the Group's technical staff and contractors, in case of incomplete projects. These estimates are reviewed periodically to take into consideration the changes in cost estimates.

Cost of hotel operations includes salaries and wages of hotel staff, supplies, outside services and repairs and maintenance and other costs attributable to hotel operations.

Selling expenses are costs incurred to sell or distribute inventories. General and administrative expenses constitute costs of administering the business which are expensed as incurred.

*Cost to obtain a contract*

The Group pays sales commission to its employees for each contract that they obtain for sale of memorial lots and subdivision lots. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under Salaries, wages and benefits as part of Cost of goods sold) since the amortization period of the asset that the Group otherwise would have used is one (1) year or less.

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (functional currency). The consolidated financial statements are presented in Philippine peso (₱) the Group's functional and presentation currency.

Provisions and contingencies

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

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and the amount can be estimated reliably. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated 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 consolidated financial statements.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Group’s operating business segment are organized and managed separately according to business activities. The Group’s management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group’s financing which includes finance cost, impairment of assets and income taxes are managed on a group basis and are not allocated to operating segments.

The Group has no geographical segment for segment reporting format as the Group’s risks and rates of return are in the same economic and political environment as the Group is incorporated and operating in the Philippines.

The Group has three (3) operating business segments representing the Group's (1) real estate, (2) LPG and industrial gases, and (3) pharmaceutical products.

Earnings per share

Earnings per share is computed by dividing net income by the weighted average number of common shares issued, subscribed and outstanding during the year with retroactive adjustments for stock dividends declared.

Events after the reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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.

Significant accounting judgments in applying the Group's accounting policies

*(a) Business model assessment*

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

(b) *Impairment of financial assets*

The Group makes use of simplified approach in determining the ECL for receivables arising from sale of real estate and general approach for receivables other than those arising from sale of real estate.

Simplified approach is used for receivables arising from sale of real estate since these are generally short term in nature and are protected by credit enhancement, where real property may be repossessed in case of default of debtor. Credit risk generally arises when there is a decline in the fair value of the real property and such decline will make the fair value of the real property lower than the carrying amount of the receivables. Fair value of real properties is not expected to change abruptly. Hence, simplified approach is used for determining allowance for ECL for these receivables.

Simplified approach is also used for computing ECL based on lifetime ECL for trade and other receivables, other than those arising from sale of real estate, since these are generally short term in nature.

General approach is used for receivables other than those arising from sale of real estate. ECL for these receivables is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. The Group does not track changes in credit risk for receivables arising from sale of real estate.

Management believes that there are no indications that its trade and other receivables and advances to a related party are impaired as at June 30, 2019 and December 31, 2018. The management likewise assessed that there is no increase in credit risk for receivables other than those arising from real estate for the periods ended June 30, 2019 and December 31, 2018.

(c) *Impairment of goodwill*

Determining whether goodwill is impaired requires estimation of the value of CGU to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Management believes that there are no indications that the goodwill is impaired as at June 30, 2019 and December 31, 2018.

*(d) Impairment of non-financial assets other than inventories*

Management is required to perform test of impairment when impairment indicators are present. Property, plant and equipment and investment properties (see Notes 10, 11 and 12) are periodically reviewed to determine any indications of impairment. Management is required to make estimates to determine future cash flows to be generated from the continued use and ultimate disposition of these assets in order to determine the value in use. Though the management believes that the estimates and assumptions used in the determination of recoverable amounts are reasonable and appropriate, significant changes in these assumptions may materially affect the assessment of the recoverable amounts and any resulting impairment loss could have a material adverse effect in the results of operations.

Management believes that there are no indications that its inventories, real estate projects, property, plant and equipment and investment properties are impaired.

*(e) Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes.

If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

*(f) Determining the timing of satisfaction of sale of memorial lots, subdivision lots and office units*

The Group concluded that revenues from sales of memorial lots, subdivision lots and office units are recognized at a point in time when control of the asset is transferred to the customer. For sale of memorial lots, control is generally transferred when lots are allowed to be used for burial which is upon 100% payment of purchase of lawn lot and upon 50% payment of family estate. For sale of subdivision lots and office units, control is transferred upon turnover to the buyer.

*(g) Operating lease*

*Group as lessor*

The Group has entered into commercial property leases as lessor on its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the estimated useful life of the assets. Accordingly, the Group accounted for these as operating leases.

*Group as lessee*

The Group has entered into various lease agreements as lessee. The Group classified the lease as operating lease, since the Group believes that the lessor does not transfer substantially all the risks and benefits on the ownership of the assets.

*(h) Income taxes*

Significant judgment is required in determining the provision for income taxes. Recognition of deferred income taxes depends on management's assessment of the probability of available future taxable income against which the temporary difference can be applied. Realization of future tax benefit related to the deferred tax assets is dependent on many factors, including the Group's ability to generate taxable income during the periods in which those temporary differences are expected to be recovered. Management has considered these factors in reaching its conclusion to provide a full valuation allowance on deferred tax assets in as much as management assessed that the carry forward benefit is not realizable in the near future.

Significant accounting estimates and assumptions

*(a) Impairment of trade and other receivables*

The loss allowances for trade and other receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The carrying amount of the Group's trade and other receivables amounted to ₱358.96 million and ₱358.10 million at June 30, 2019 and December 31, 2018, respectively. Allowance for ECL recognized in the consolidated statements of financial position amounted to nil as at June 30, 2019 and December 31, 2018, respectively (see Note 6).

In 2018, the Company reversed all of its allowance for ECL. It is the management's judgment that all of its trade and other receivables will be collectible based on, among others, its historical credit experience with its debtors, the future economic conditions, and laws governing real estate sales.

*(b) Determining the NRV of inventories*

In determining the NRV of inventories, the management takes into account the most reliable evidence available at the time the estimates are made. Prices are affected by both internal and external factors that may cause inventory obsolescence. These factors may cause significant adjustment to the Group's inventories within the next reporting period.

The carrying amount of the Group's inventories which are carried at cost as at June 30, 2019 and December 31, 2018 amounted to ₱893.22 million and ₱1.07 billion, respectively (see Note 7). The carrying amount of the Group's real estate projects which are also carried at cost as at June 30, 2019 and December 31, 2018 amounted to ₱804.92 million and ₱816.04 million, respectively (see Note 8).

(c) *Estimating the useful lives of property, plant and equipment except land*

The Group estimates the useful lives of its property, plant and equipment, except land, based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed and updated, if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of property, plant and equipment is based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase recorded operating expenses and decrease noncurrent assets.

As at June 30, 2019 and December 31, 2018, the carrying amounts of property, plant and equipment, net of accumulated depreciation of ₱4.65 billion and ₱4.46 billion, amounted to ₱7.45 billion and ₱6.99 billion, respectively (see Notes 10 and 11).

(d) *Retirement benefits obligation*

The present value of the retirement benefits obligation depends on a number of factors that are determined on an actuarial basis using the number of assumptions. The assumptions used in determining the retirement benefit expense include the discount rate and salary increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefits obligation. In determining the appropriate discount rate, the Group considers the interest rates of government bonds and has terms of maturity approximating the terms of the related retirements benefit obligation.

Other key assumptions for retirement benefits obligation are based in part on current market conditions.

The carrying amount of the Group's retirement benefits obligation amounted to ₱132.79 million and ₱117.25 million as at June 30, 2019 and December 31, 2018, respectively (see Note 27).

(e) *Recognition and realizability of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and future tax credits. At end of the reporting period, the Group reviews its deferred tax assets and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on industry trends and projected performance in assessing the sufficiency of taxable income.

As at June 30, 2019 and December 31, 2018, the Group recognized deferred tax assets amounting to ₱39.92 million and ₱35.17 million, respectively.

## 4. CASH

This account as at June 30, 2019 and December 31, 2018 consists of:

| | **2019** | 2018 |
|---|---|---|
| Cash on hand | **₱68,807,490** | ₱78,764,807 |
| Cash in banks | **758,162,729** | 770,081,532 |
| | **₱826,970,219** | ₱848,846,339 |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from bank deposits is disclosed as part of the Other income (net) account in the consolidated statements of comprehensive income in the amount of ₱711,277 and ₱204,657 for the periods ended June 30, 2019 and 2018, respectively (see Note 25).

There are no legal restrictions on the Group's cash as at June 30, 2019 and December 31, 2018.

## 5. FINANCIAL ASSETS AT FVPL

The movement of the account is as follows:

| | **2019** | 2018 |
|---|---|---|
| Cost | | |
| Balance at beginning of period | **₱741,730,894** | ₱619,653,819 |
| Additions | **52,035,878** | 896,370,802 |
| Disposals | **(71,301,463)** | (774,293,727) |
| | **722,465,309** | 741,730,894 |
| Fair value gain | **302,756,462** | 63,605,754 |
| Balance at end of period | **₱1,025,221,771** | ₱805,336,648 |

The movement of the fair value gain is as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of period | **₱63,605,754** | ₱110,626,583 |
| Fair value gain (loss) during the period | **239,150,708** | (47,020,829) |
| Balance at end of period | **₱302,756,462** | ₱63,605,754 |

This consists of equity securities from various listed companies in the Philippines. The fair values of these securities have been determined directly by reference to published prices quoted in the active market at the end of the reporting period.

Proceeds from the sale of the Group's financial assets at FVPL for the periods ended June 30, 2019 and 2018 amounted to ₱113.77 million and ₱403.49 million, which resulted to gain on sale of ₱42.47 million and ₱12.74 million, respectively, and is presented under Other income (net) in the consolidated statements of comprehensive income (see Note 25).

Dividend income earned from financial assets at FVPL is presented under Other income (net) in the consolidated statements of comprehensive income amounting to ₱24.21 million and ₱19.88 million for the periods ended June 30, 2019 and 2018, respectively (see Note 25).

## 6. TRADE AND OTHER RECEIVABLES (NET)

This account as at June 30, 2019 and December 31, 2018 consists of:

| | **2019** | 2018 |
|---|---|---|
| Trade | **₱213,129,898** | ₱194,548,686 |
| Receivables from memorial lot owners | **46,368,835** | 46,499,255 |
| Advances to officers and employees | **42,311,569** | 31,795,251 |
| Advances to contractors and suppliers | **27,709,380** | 22,348,525 |
| Refundable deposits | **18,163,297** | 10,451,294 |
| Others | **11,276,497** | 52,454,745 |
| | **358,959,476** | 358,097,756 |
| Less: Allowance for ECL | **-** | - |
| | **₱358,959,476** | ₱358,097,756 |

Trade receivables arising from sale of LPG and industrial gases are usually due within thirty (30) to one hundred twenty (120) days and do not bear any interest. Trade receivables arising from sale of memorial lots, subdivision lots and office units are paid on a monthly basis with various terms ranging from one (1) to five (5) years.

Receivables from memorial lot owners pertain to advance payment made by the Group for the maintenance and upkeep of sold memorial lots which are reimbursable from the memorial lot owners.

Advances to officers and employees are, in general, non-interest bearing and collectible through salary deductions except car plans. The car plans offered to officers and employees bear interest up to 24% per annum with repayment terms.

Advances to contractors and suppliers pertain to advance payments made to suppliers and contractors for the development of real estate projects and acquisition of property, plant and equipment which will be subsequently reclassified to property, plant and equipment once the title has been transferred to the Group.

Refundable deposits mainly represent bonds paid to various suppliers.

Others mainly consists of receivable from sale of land, sale of financial assets at FVPL and payments made to Homeowner's Association subject for reimbursement with subdivision lot owners.

The details and movements in the allowance for ECL are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of period | **₱-** | ₱30,589,742 |
| Reversal of allowance for ECL | **-** | (30,589,742) |
| Balance at end of period | **₱-** | **₱-** |

The allowance in prior years that were subsequently collected pertains to long outstanding trade receivables, that were provided 100% loss rate based on the Group's internal policy.

The Group is not expected to have similar transactions with the same customers in the future.

There are no receivables that are neither past due nor impaired that have been negotiated as at June 30, 2019 and December 31, 2018.

## 7. INVENTORIES

This account as at June 30, 2019 and December 31, 2018 consists of:

| | **2019** | 2018 |
|---|---|---|
| Finished goods | | |
| LPG, cylinders, stoves and accessories | **₱733,641,565** | ₱870,404,756 |
| Industrial gases | **11,922,644** | 12,443,295 |
| Pharmaceutical products | **6,047,827** | 8,009,709 |
| | **751,612,036** | 890,857,760 |
| In-transit LPG | **-** | 68,510,168 |
| Material and supplies | **131,625,760** | 99,273,973 |
| Raw materials | **9,985,193** | 13,428,804 |
| | **₱893,222,989** | ₱1,072,070,705 |

Inventories are stated at cost. In-transit LPG pertains to LPG inventories that are under the cost, insurance and freight (CIF) shipping term. The title and risk of loss shall pass to the Group on delivery of the goods to the carrier. As at December 31, 2018, in transit LPG inventories are on board the carrier heading towards the Philippines marine fed terminal for customs clearance.

The Group's inventories are carried at cost, which is lower than the net realizable value.

There are no inventories pledged as security for liabilities as at June 30, 2019 and December 31, 2018.

Inventories charged to cost of sales for the periods ended June 30, 2019 and 2018 are as follows (see Note 22):

| | **2019** | 2018 |
|---|---|---|
| LPG, cylinders, stoves and accessories | **₱3,916,742,827** | ₱3,408,705,259 |
| Industrial gases | **112,925,983** | 113,320,670 |
| Pharmaceutical products | **16,379,583** | 14,044,158 |
| | **₱4,046,048,393** | ₱3,536,070,087 |

## 8. REAL ESTATE PROJECTS

Real estate projects as at June 30, 2019 and December 31, 2018 consist of:

| | **2019** | 2018 |
|---|---|---|
| Memorial park lots | **₱433,575,828** | ₱438,357,153 |
| Subdivision lots | **91,347,028** | 102,853,770 |
| Office units | **52,165,103** | 57,662,892 |
| Land held for future development | **227,829,520** | 217,163,207 |
| | **₱804,917,479** | ₱816,037,022 |

The real estate projects are stated at cost which is lower than NRV.

As at June 30, 2019 and December 31, 2018, there is no real estate project pledged as security for liabilities and no restriction on title had been imposed. No contractual commitments have been entered into by the Group for acquisition of any properties related to real estate projects.

The cost of real estate projects recognized as cost of sales in the Group's consolidated statements of comprehensive income amounted to ₱22.91 million and ₱71.21 million for the periods ended June 30, 2019 and 2018, respectively (see Note 22).

## 9. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Prepayments | | |
| Rent | **₱28,048,445** | ₱25,415,357 |
| Taxes and licenses | **10,439,967** | 12,055,274 |
| Insurance | **7,359,911** | 7,924,419 |
| Maintenance | **-** | 655,617 |
| Input VAT, net | **-** | 21,870,857 |
| Deferred charges | **1,538,566** | 1,061,630 |
| Others | **9,069,299** | 6,002,270 |
| | **₱56,456,188** | ₱74,985,424 |

Prepaid taxes and licenses represent advance payment of business taxes for the succeeding period.

Prepaid insurance pertains to the portion of the insurance premium that has been paid in advance and has not been expired.

Prepaid maintenance pertains to maintenance costs paid in advance for the requalification procedures on LPG bulk tanks and other machinery.

Input VAT represents the taxes paid on purchases of goods and services which can be recovered as tax credit against future output VAT liability of the Company.

Others include advances to suppliers, terminal refilling and other plant repairs that are amortized within one (1) year.

## 10. PROPERTY, PLANT AND EQUIPMENT AT REVALUED AMOUNTS (NET)

Reconciliation of the carrying amounts as at June 30, 2019 and December 31, 2018 and the gross carrying amounts and the accumulated depreciation of revalued property, plant and equipment are as follows:

**June 30, 2019**

| | Net carrying amounts, January 1, 2019 | Additions | Depreciation | Reclassification | Disposals | Net carrying amounts, June 30,2019 |
|---|---|---|---|---|---|---|
| **Land and land improvements** | **₱1,544,797,277** | **₱11,687,286** | **(₱606,805)** | **₱-** | **₱-** | **₱1,555,877,758** |
| **Buildings and structures** | **955,029,034** | **34,682,450** | **(37,110,040)** | **310,683,271** | **-** | **1,263,284,714** |
| **Machinery and equipment** | **2,355,313,601** | **51,177,614** | **(78,160,865)** | **(310,683,271)** | **-** | **2,017,647,080** |
| **Oxygen and acetylene cylinders** | **255,984,623** | **21,198,179** | **(24,718,970)** | **-** | **(564,057)** | **251,899,773** |
| **Hotel and office equipment** | **6,592,839** | **-** | **(818,500)** | **-** | **-** | **5,774,339** |
| | **₱5,117,717,374** | **₱118,745,529** | **(₱141,415,180)** | **₱-** | **(₱564,057)** | **₱5,094,483,664** |

| | Revalued cost | Accumulated depreciation | Net carrying amounts, June 30, 2019 |
|---|---|---|---|
| Land and land improvements | **₱1,575,593,916** | **(₱19,716,158)** | **₱1,555,877,758** |
| Buildings and structures | **2,261,160,802** | **(997,876,088)** | **1,263,284,714** |
| Machinery and equipment | **4,048,393,500** | **(2,030,746,420)** | **2,017,647,080** |
| Oxygen and acetylene cylinders | **983,028,556** | **(731,128,783)** | **251,899,773** |
| Hotel and office equipment | **73,278,235** | **(67,503,896)** | **5,774,339** |
| | **₱8,941,455,009** | **(₱3,846,971,345)** | **₱5,094,483,664** |

December 31, 2018

| | Net carrying amounts, January 1, 2018 | Additions | Depreciation | Reclassification | Disposals | Net carrying amounts, Dec. 31, 2018 |
|---|---|---|---|---|---|---|
| Land and land improvements | ₱1,475,127,433 | ₱73,691,244 | (₱2,184,500) | ₱- | (₱1,836,900) | ₱1,544,797,277 |
| Buildings and structures | 852,641,430 | 19,791,850 | (87,429,629) | 170,025,383 | - | 955,029,034 |
| Machinery and equipment | 2,121,536,019 | 30,746,855 | (136,606,095) | 345,521,469 | (5,884,647) | 2,355,313,601 |
| Oxygen and acetylene cylinders | 278,500,848 | 12,762,998 | (31,036,040) | - | (4,243,183) | 255,984,623 |
| Hotel and office equipment | 7,411,339 | - | (818,500) | - | - | 6,592,839 |
| | ₱4,735,217,069 | ₱136,992,947 | (₱258,074,764) | ₱515,546,852 | (₱11,964,730) | ₱5,117,717,374 |

| | Revalued cost | Accumulated depreciation | Net carrying amounts, December 31, 2018 |
|---|---|---|---|
| Land and land improvements | ₱1,563,906,629 | (₱19,109,352) | ₱1,544,797,277 |
| Buildings and structures | 1,563,090,727 | (608,061,693) | 955,029,034 |
| Machinery and equipment | 4,660,603,491 | (2,305,289,890) | 2,355,313,601 |
| Oxygen and acetylene cylinders | 962,406,041 | (706,421,418) | 255,984,623 |
| Hotel and office equipment | 73,278,235 | (66,685,396) | 6,592,839 |
| | ₱8,823,285,123 | (₱3,705,567,749) | ₱5,117,717,374 |

Depreciation charged to operations was allocated as follows:

| | **Jun. 30, 2019** | Jun. 30, 2018 |
|---|---|---|
| Cost of sales | **₱75,335,138** | ₱ 71,576,999 |
| Operating expenses | **66,080,042** | 47,038,551 |
| | **₱141,415,180** | ₱ 118,615,550 |

The above depreciation includes depreciation on appraisal increase amounting to ₱59.48 million for the periods ended June 30, 2019 and 2018, which also represents transfer of realized portion of revaluation reserve to retained earnings.

The property, plant and equipment were appraised on various dates from June to September 2016 by an independent firm of appraiser based on the market value using the market data approach. The value of property, plant and equipment are based on sales, listings and market transactions between market participants at the measurement date.

As at June 30, 2019 and December 31, 2018, the revaluation reserve on the property, plant and equipment carried at revalued amount is ₱1.58 million and ₱1.62 million, respectively, which is presented under Other Comprehensive Income (see Note 26).

No contractual commitments have been entered into by the Group for acquisition of any property, plant and equipment.

## 11. PROPERTY, PLANT AND EQUIPMENT AT COST (NET)

Details of property, plant and equipment are as follow:

**June 30, 2019**

| | Net carrying amounts, Jan. 1, 2019 | Additions | Reclassification | Disposals | Depreciation | Net carrying amounts, Jun. 30, 2019 |
|---|---|---|---|---|---|---|
| **LPG plant, machinery and equipment** | **₱165,152,679** | **₱4,017,573** | **₱-** | **₱-** | **(₱400,566)** | **₱168,769,686** |
| **Machinery and equipment** | **461,110,460** | **84,147,540** | **-** | **(758,758)** | **(10,109,157)** | **534,390,085** |
| **Transportation equipment** | **210,120,247** | **92,559,412** | **-** | **-** | **(28,477,591)** | **274,202,069** |
| **Leasehold improvement** | **377,259** | **-** | **-** | **-** | **(221,770)** | **155,488** |
| **Furniture, fixtures and equipment** | **32,768,939** | **15,612,567** | **-** | **-** | **(8,262,470)** | **40,119,036** |
| **CIP** | **1,000,572,220** | **332,141,939** | **-** | **-** | **-** | **1,332,714,159** |
| **Building and structures** | **5,762,052** | **-** | **-** | **-** | **(74,996)** | **5,687,057** |
| | **₱1,875,863,856** | **₱528,479,031** | **₱-** | **(₱758,758)** | **(₱47,546,550)** | **₱2,356,037,580** |

| | Cost | Accumulated depreciation | Net carrying amounts, Jun. 30, 2019 |
|---|---|---|---|
| **LPG plant machinery and equipment** | **₱263,113,107** | **(₱94,343,421)** | **₱168,769,686** |
| **Machinery and equipment** | **747,616,122** | **(213,226,037)** | **534,390,085** |
| **Transportation equipment** | **626,211,515** | **(352,009,446)** | **274,202,069** |
| **Leasehold improvement** | **17,399,400** | **(17,243,912)** | **155,488** |
| **Furniture, fixtures and equipment** | **163,619,388** | **(123,500,352)** | **40,119,036** |
| **Construction in progress** | **1,332,714,159** | **-** | **1,332,714,159** |
| **Building and structures** | **9,239,474** | **(3,552,417)** | **5,687,057** |
| | **₱3,159,913,165** | **(₱803,875,585)** | **₱2,356,037,580** |

December 31, 2018

| | Net carrying amounts, Jan. 1, 2018 | Additions | Reclassification | Disposals | Depreciation | Net carrying amounts, Dec. 31, 2018 |
|---|---|---|---|---|---|---|
| LPG plant machinery and equipment | ₱104,708,398 | ₱76,853,631 | ₱- | ₱- | (₱16,409,350) | ₱165,152,679 |
| Machinery and equipment | 468,928,321 | 42,786,761 | - | (1,444,799) | (49,159,823) | 461,110,460 |
| Transportation equipment | 78,076,797 | 173,344,903 | - | (7,727,153) | (33,574,300) | 210,120,247 |
| Leasehold improvement | 1,527,114 | 154,850 | - | - | (1,304,705) | 377,259 |
| Furniture, fixtures and equipment | 26,405,906 | 16,295,762 | - | - | (9,932,729) | 32,768,939 |
| CIP | 295,874,769 | 1,220,244,303 | (515,546,852) | - | - | 1,000,572,220 |
| Building and structures | 6,224,026 | - | - | - | (461,974) | 5,762,052 |
| | ₱981,745,331 | ₱1,529,680,210 | (₱515,546,852) | (₱9,171,952) | (₱110,842,881) | ₱1,875,863,856 |

| | Cost | Accumulated depreciation | Net carrying amounts, December 31, 2018 |
|---|---|---|---|
| LPG plant machinery and equipment | ₱259,095,534 | (₱93,942,855) | ₱165,152,679 |
| Machinery and equipment | 664,588,906 | (203,478,446) | 461,110,460 |
| Transportation equipment | 534,252,100 | (324,131,853) | 210,120,247 |
| Leasehold improvement | 17,399,402 | (17,022,143) | 377,259 |
| Furniture, fixtures and equipment | 148,006,823 | (115,237,884) | 32,768,939 |
| Construction in progress | 1,000,572,220 | - | 1,000,572,220 |
| Building and structures | 9,239,473 | (3,477,421) | 5,762,052 |
| | ₱2,633,154,458 | (₱757,290,602) | ₱1,875,863,856 |

Depreciation charged to operations was allocated as follows:

| | **Jun. 30, 2019** | Jun. 30, 2018 |
|---|---|---|
| Cost of sales | **₱22,658,848** | ₱ 24,380,027 |
| Operating expenses | **24,887,702** | 10,725,166 |
| | **₱47,546,550** | ₱ 35,105,193 |

CIP pertains mainly to construction contracts for the site construction and installation of various mounded cylindrical LPG tank storage.

For the period ended June 30, 2019 and 2018, certain property, plant and equipment was disposed of for a total consideration of ₱1.63 million and ₱27.58 million resulting into a gain of ₱307 thousand and ₱25.17 million, respectively. The gain on disposal was under Other income (net) in the consolidated statements of comprehensive income (see Note 25).

As at June 30, 2019 and December 31, 2018, there are no property, plant and equipment (at cost) pledged as security for liabilities and no restrictions on title had been imposed. No contractual commitments have been entered into by the Group for acquisition of any property, plant and equipment.

## 12. INVESTMENT PROPERTIES

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Memorial lots | **₱78,470,747** | ₱78,470,747 |
| Land | **37,027,141** | 37,027,141 |
| | **₱115,497,888** | ₱115,497,888 |

The movements of the investment properties as at June 30, 2019 and December 31, 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of period | **₱115,497,888** | ₱115,497,888 |
| Additions for the period | **-** | - |
| Balance at end of period | **₱115,497,888** | ₱115,497,888 |

The memorial lots are located in various memorial parks owned and operated by the Parent Company in Mindanao. With the termination of the rehabilitation plan and PGI's intention to hold these assets for capital appreciation, the memorial lots have been reclassified to investment properties from previously classified as assets held for dacion en pago.

The land pertains to three (3) parcels of land located in Luzon, which were acquired in 2014. These parcels of land are held for lease by one of its subsidiaries.

As at June 30, 2019 and December 31, 2018, there are no investment properties pledged as security for liabilities and no restrictions on title had been imposed. No contractual commitments have been entered into by the Group for acquisition of any investment properties.

The fair value of the land is the same as its cost since the management believes that the fair value of the investment properties does not significantly change from the time of acquisition. The Group considers the carrying amount of the memorial lots to be a reasonable approximation of their fair values. The approximation is assessed by management based on the selling price of memorial lots by the Parent Company.

## 13. GOODWILL

Goodwill as at June 30, 2019 and December 31, 2018 mainly comprises the excess of the cost of acquiring the controlling shares of the subsidiaries over the fair value of the identifiable assets and liabilities acquired by the Parent Company.

| | **2019** | 2018 |
|---|---|---|
| Attributable to: | | |
| Investment in subsidiaries by Parent Company | | |
| PGI | **₱76,377,066** | ₱76,377,066 |
| PPhI | **1,771,239** | 1,771,239 |
| | **₱78,148,305** | ₱78,148,305 |

Acquisition of PGI

The recoverable amount of PGI's CGU was based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections of 8.0%. Cash flows beyond the five-year period are extrapolated using the steady growth rate of 1.0%. The carrying value of goodwill amounted to ₱76.38 million as at June 30, 2019 and December 31, 2018. No impairment loss was recognized for goodwill arising from the acquisition of PGI.

The calculations of value in use for the PGI's CGU are most sensitive to the following assumptions:

- Budgeted gross margin – The management determined budgeted gross margin based on past performance and its expectations for the market development.
- Growth rate – The projected growth rate is based on a conservative steady growth rate that does not exceed the compounded annual growth rate of the global LPG industry.
- Pre-tax discount rate – Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

On the assessment of the value in use of PGI, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

In 2018, the Parent Company acquired from PGI's previous shareholder 8,500,000 shares for ₱15.98 million.

Acquisition of PPhI

On July 2, 2015, the Parent Company and its subsidiary, PGI, subscribed to 7.5 million and 1.495 million common shares of PPhI, respectively, at a subscription price of ₱1 per share for a total consideration of ₱7.50 million and ₱1.50 million, respectively. As a result of the subscription, the Parent Company owns 75% direct equity interest and 13.61% indirect equity interest (through PGI) in PPhI.

In 2018, by virtue of the Parent Company's acquisition of 8,500,000 shares from PGI's previous shareholder for ₱15.98 million, the Parent Company's indirect equity interest (through PGI) in PPhI increased from 13.61% to 13.66%.

The following table summarizes the consideration transferred for the fair value of the net assets acquired assumed at the acquisition date.

| | |
|---|---|
| Net assets | ₱7,638,348 |
| Share of non-controlling shareholders | (1,909,587) |
| | 5,728,761 |
| Total consideration transferred | (7,500,000) |
| Goodwill | ₱1,771,239 |

## 14. TRADE AND OTHER PAYABLES

This account as at June 30, 2019 and December 31, 2018 consists of:

| | **2019** | 2018 |
|---|---|---|
| Accounts payable: | | |
| Trade | **₱621,765,415** | ₱769,587,784 |
| Nontrade | **2,182,360** | 6,706,034 |
| Deposits for park internment services | **149,805,516** | 99,642,455 |
| Due to park maintenance fund | **39,232,334** | 46,267,176 |
| Accrued expenses | **49,746,925** | 23,444,917 |
| Cylinder deposits | **39,414,688** | 23,223,845 |
| Due to government agencies | **3,617,130** | 22,404,405 |
| Reserve fund liability | **6,386,467** | 5,692,628 |
| Deferred income | **-** | 2,673,456 |
| Others | **17,697,809** | 21,495,560 |
| | **₱929,848,644** | ₱1,021,138,260 |

Trade payables pertains to amount due to supplier payable within 30 days from date of sale and do not bear interest.

Deposits for park interment services represent accumulated collections from memorial lot owners exclusively intended for future interment services.

Due to park maintenance fund represent contributions made by memorial lot owners for the upkeep and maintenance of the memorial cemetery.

Accrued expenses pertain to accrual of salaries and wages, utilities, maintenance and security agency fees.

Cylinder deposits pertain to deposits made by customers for its industrial gases and fifty (50) kg. LPG cylinders lent out by the Group.

Due to government agencies include SSS, HDMF and PHIC payable, withholding taxes and other taxes payable.

Reserve fund liability is a pool of funds contributed by the Group’s officers to cover for future losses due to wrong decisions.

Deferred income pertains to interest related to the car plans offered by the Group to certain officers and employees.

## 15. CUSTOMERS’ DEPOSITS

This account represents accumulated collections on memorial lots sold to customers but have not yet met the Group’s specific revenue recognition criteria. Such deposits will be recognized as revenues when the revenue recognition criteria of the Group has been met.

The customers’ deposits amounted to ₱137.10 million and ₱109.32 million as at June 30, 2019 and December 31, 2018, respectively.

## 16. SHORT-TERM DEBTS

Short-term debts consist of:

*(a) PGI*

In the first half of 2019, PGI obtained credit facilities amounting to ₱1.25 billion from a commercial bank at an average interest rate of 4.50% with tenure of 120 days which will expire on various dates from May 23, 2019 to October 24, 2019.

In February 2019, PGI obtained another credit facilities amounting to ₱100 million from another commercial bank at an average interest rate of 7.25% with tenure of 60 days. The short-term loan is unsecured.

In April 2019, PGI obtained some more credit facilities amounting to ₱100 million from one more commercial bank at an average interest rate of 7.50% with tenure of 90 days. The short-term loan is unsecured.

In May 2018, PGI obtained credit facilities amounting to ₱993 million from a commercial bank with tenure of 180 days which will expire on February 28, 2019.

In July 2018, PGI obtained another credit facilities amounting to ₱400 million from another commercial bank with tenure of 180 days. The short-term loan is unsecured.

The average interest rate on local borrowings for the period ended December 31, 2018 was 3.60%.

*(b) OOC*

In the first half of 2019, OOC obtained short-term debts from a local bank with an amount of ₱50 million at an average interest rate of 7.25% per annum. The outstanding balance of the short term loan amounted to ₱NIL as at June 30, 2019.

In 2018, OOC obtained various short-term debts from local banks with an aggregate amount of ₱100 million at an average interest rate of 4.50% to 6.00% per annum. The outstanding balance of the short term loan amounted to ₱100 million as at December 31, 2018.

As at June 30, 2019 and December 31, 2018, the outstanding balance of short-term debts amounted to ₱885 million and ₱905.08 million, respectively. Total interest incurred charged to operations amounted to ₱18.62 million and ₱9.34 million for the periods ended June 30, 2019 and 2018, respectively (see Note 24).

## 17. CAPITAL STOCK

Details of this account are as follows:

| | **2019** | 2018 |
|---|---|---|
| Common stock: ₱1 par value<br>Authorized: 2,098,000,000 common shares | **₱2,098,000,000** | ₱2,098,000,000 |
| Subscribed, issued and fully paid:<br>2,024,500,000 shares | **₱2,024,500,000** | ₱2,024,500,000 |

The Parent Company was incorporated on September 7, 1989 with an authorized capital stock of ₱1,000,000,000 divided into 600,000,000 shares of Class A common stock with the par value of ₱1.00 per share and 400,000,000 shares of Class B common stock with the par value of ₱1.00 per share. On March 30, 1990, it obtained the SEC's approval of the registration of its capital stock for sale to the public and on October 29, 1991, 150,000,000 of its Class 'A' shares were listed at the Makati Stock Exchange at the issue/offer price of ₱1.00 per share and 50,000,000 of its Class 'B' shares were likewise so listed at the same issue/offer price of ₱1.00 per share.

On March 21, 1994, the SEC approved the amendment of its Articles of Incorporation to consolidate Class B common stock with Class A common stock as the Group's authorized capital stock. Thus, the Parent Company's capital stock stood at ₱1 billion divided into 1,000,000,000 common shares with the par value of ₱1.00 per share.

On July 31, 1996, the SEC approved the increase of the capital stock of the Parent Company from ₱1 billion divided into 1,000,000,000 shares with the par value of ₱1.00 per share to ₱2 billion divided into 2,000,000,000 shares with the par value of ₱1.00 per share.

On December 13, 2017, the SEC approved the increase of the authorized capital stock of the Parent Company from ₱2 billion divided into 2,000,000,000 shares with the par value of ₱1 per share to ₱2.098 billion divided into 2,098,000,000 shares with the par value of ₱1.00 per share.

The Parent Company's shares are listed in the PSE. As at June 30, 2019 and December 31, 2018, the Parent Company's stock price amounted to ₱5.09 per share and ₱5.75 per share, respectively.

As at June 30, 2019 and December 31, 2018, the Parent Company has three hundred fifty-six (356) and three hundred sixty (360) equity holders, respectively.

## 18. TREASURY STOCKS

In 2018, the BOD approved the common shares buy-back program under the following terms and conditions:

- The buy-back program shall be for a term of 24 months commencing on November 20, 2018 up to November 19, 2020.
- The Group shall be authorized to repurchase up to ₱500,000,000 worth of common shares.
- The buy-back program shall be executed in the open market through the trading facility of PSE.
- The buy-back program shall be implemented in an orderly manner and should not adversely affect the Group and its subsidiaries' prospective and existing projects.

As at June 30, 2019 and December 31, 2018, the Group has treasury stocks amounting to 11,409,500 shares and 1,145,600 shares with cost of ₱64.48 million and ₱6.27 million, respectively.

## 19. DIVIDEND DECLARATION

*Parent Company's dividend declaration*

In a special meeting held on May 17, 2019, the BOD declared cash dividends amounting to ₱241.58 million which is also equivalent to ₱0.12 per share to stockholders of record as of June 14, 2019 payable on July 10, 2019.

In a special meeting held on December 14, 2018, the BOD declared cash dividends amounting to ₱242.71 million which is also equivalent to ₱0.12 per share to stockholders of record as of January 11, 2019 payable on February 4, 2019.

Likewise, in a special meeting held on June 7, 2018, the BOD declared cash dividends amounting to ₱242.94 million equivalent to ₱0.12 per share to stockholders of record as at June 25, 2018 payable on July 19, 2018.

Cash dividends declared in 2019 and 2018 are summarized below:

| Date declared | Date paid | Dividend per share | **2019** | 2018 |
|---|---|---|---|---|
| June 7, 2018 | July 19, 2018 | ₱0.12 | **₱-** | ₱242,940,000 |
| December 14, 2018 | February 4, 2019 | 0.12 | **-** | 242,709,696 |
| May 17, 2019 | July 10, 2019 | 0.12 | **241,582,860** | **-** |
| | | | **₱241,582,860** | ₱485,649,696 |

*PGI's dividend declaration*

At the special meeting of the BOD held on April 5, 2019, the Board approved distribution of a cash dividend to stockholders of record as of April 19, 2019 amounting to ₱336 million out of unrestricted retained earnings for cash dividends as of December 31, 2018.

At the special meeting of the BOD held on October 23, 2018, the Board approved distribution of a cash dividend to stockholders of record as of November 6, 2018 amounting to ₱280 million out of unrestricted retained earnings for cash dividends as of December 31, 2017

At the special meeting of the BOD held on May 4, 2018, the Board approved distribution of a cash dividend to stockholders of record as of May 11, 2018 amounting to ₱280 million out of unrestricted retained earnings for cash dividends as of December 31, 2017.

Cash dividend declared  in 2019 and 2018 are summarized below:

| Date declared | Date paid | Dividend per share | **2019** | 2018 |
|---|---|---|---|---|
| May 4, 2018 | May 18, 2018 | ₱0.10 | **₱-** | ₱280,000,000 |
| October 23, 2018 | November 12, 2018 | 0.10 | **-** | 280,000,000 |
| April 5, 2019 | May 3, 2019 | 0.12 | **336,000,000** | - |
| | | | **₱336,000,000** | ₱560,000,000 |

As at June 30, 2019 and December 31, 2018, outstanding dividends payable amounted to ₱250.81 million and ₱248.65 million, respectively.

## 20. RELATED PARTY TRANSACTIONS

The Group, in the normal course of business, has transactions with related parties. The following are the specific relationship, amount of transaction, account balances, the terms and conditions and the nature of the consideration to be provided in settlement.

| | **Amount of transaction** | | **Outstanding receivable** | |
|---|---|---|---|---|
| **Relationship** | **2019** | 2018 | **2019** | 2018 |
| **Under common control** | | | | |
| Pryce Retirement Fund, Inc. (PRFI) | **₱4,243,062** | ₱- | **₱71,903,766** | ₱67,660,704 |
| Pryce Plans, Inc. (PPI) | **559,015** | - | **559,015** | - |
| **Stockholders** | **-** | - | **63,784,177** | 63,784,177 |
| | **₱4,802,077** | ₱- | **₱136,246,958** | ₱131,444,881 |

The Group has unsecured and non-interest bearing advances to related parties with no definite repayment terms and no guarantee. These advances are generally settled in cash.

No provision for impairment was recognized for advances to related parties in 2019 and 2018.

## 21. REVENUES

The details of this account are as follows:

a) LPG and industrial gases

| | 2019 | 2018 |
|---|---|---|
| LPG, cylinders, stoves and accessories | **₱4,999,194,863** | ₱ 4,419,545,134 |
| Industrial gases | **220,187,516** | 211,453,318 |
| | **₱5,219,382,379** | ₱ 4,630,998,452 |

b) Real estate

Revenue from sale of real estate amounted to ₱75.71 million and ₱179.92 million for the periods ended June 30, 2019 and 2018, respectively.

c) Pharmaceutical products

Revenue from sale of pharmaceutical products amounted to ₱24.65 million and ₱21.61 million for the periods ended June 30, 2019 and 2018, respectively.

## 22. COST OF SALES

a) Cost of sales on LPG and industrial gases for the periods ended June 30 are as follows:

| | 2019 | 2018 |
|---|---|---|
| LPG, cylinders, stoves and accessories | **₱3,916,742,827** | ₱ 3,408,705,259 |
| Industrial gases | **112,925,983** | 113,320,670 |
| | **₱4,029,668,810** | ₱ 3,522,025,929 |

b) Cost of sales on real estate amounted to ₱22.91 million and ₱71.21 million for the periods ended June 30, 2019 and 2018, respectively. The cost of real estate recognized in the consolidated statements of comprehensive income on disposal is determined with reference to the specific costs incurred on the property sold.

c) Cost of sales on pharmaceutical products for the periods ended June 30 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Beginning inventory – note 7 | **₱8,009,709** | ₱ 5,686,286 |
| Add: Purchases | **14,417,701** | 14,707,187 |
| Total good available for sale | **22,427,410** | 20,393,473 |
| Less: Ending inventory – note 7 | **6,047,827** | 6,349,315 |
| | **₱16,379,583** | ₱ 14,044,158 |

## 23. OPERATING EXPENSES

Operating expenses for the periods ended June 30 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Selling expenses | **₱228,853,262** | ₱203,350,062 |
| General and administrative expenses | **283,877,816** | 206,225,489 |
| | **₱512,731,078** | ₱409,575,551 |

## 24. FINANCE COSTS

Finance costs for the periods ended June 30 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Short-term – note 16 | **₱18,623,887** | ₱ 9,336,014 |
| Others | **44,176** | 3,063,817 |
| | **₱18,668,063** | ₱ 12,399,831 |

## 25. OTHER INCOME (NET)

Other income (net) for the periods ended June 30 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Dividend income – note 5 | **₱24,205,693** | ₱19,884,655 |
| Gain on sale of financial assets at FVPL – note 5 | **42,470,800** | 12,737,442 |
| Sale of scrap and junked materials | **13,007,853** | 20,494,127 |
| Gain on sale of property, plant and equipment – note 11 | **306,966** | 25,171,600 |
| Interest income from banks – note 4 | **711,277** | 204,657 |
| Others | **-** | 2,654,283 |
| | **₱80,702,589** | ₱81,146,764 |

## 26. OTHER COMPREHENSIVE INCOME

This account as at June 30, 2019 and December 31, 2018 consists of:

| | **2019** | 2018 |
|---|---|---|
| Remeasurement gain on retirement benefits obligation | | |
| At beginning of period | **₱20,848,377** | ₱20,848,377 |
| Remeasurement gain during the period | - | - |
| Effect of deferred income tax | - | - |
| At end of period | **20,848,377** | 20,848,377 |
| Revaluation reserves | | |
| At beginning of period | **1,618,932,730** | 1,702,210,318 |
| Transfer of revaluation reserves deducted from operations through additional depreciation charges – note 10 | **(59,483,989)** | (118,967,983) |
| Deferred income tax effect on revaluation reserves charged to operations through additional depreciation | **17,845,196** | 35,690,395 |
| At end of period | **1,577,293,937** | 1,618,932,730 |
| Total other comprehensive income | **₱1,598,142,314** | ₱1,639,781,107 |

## 27. RETIREMENT BENEFITS OBLIGATION

The Group maintains a retirement benefits plan covering all employees on regular employment status. The plan is a funded noncontributory defined benefit plan that provides retirement benefits equal to the following: (a) 150% of monthly final salary for every year of service rendered for the first 20 years; (b) 175% of monthly final salary for every year of service rendered in excess of 20 years but not more than 25 years; and, (c) 200% of monthly final salary for every year of service rendered in excess of 25 years. The plans use the projected unit credit method of actuarial valuation in its retirement benefit cost computation.

Contributions and costs are determined in accordance with actuarial valuation made for the plan. The Group's latest actuarial valuation is as at December 31, 2017.

For the determination of the retirement benefits obligation, the following actuarial assumptions were used:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **5.70%** | 5.70% |
| Expected salary increase rate | **7%** | 7% |

The discount rate, also called the zero yield curve, as at June 30, 2019 and December 31, 2018 was derived by applying the procedure of bootstrapping on the bonds included in the PHP BVAL rates and the PDST-R2 Index, projected as of the valuation date. Assumptions regarding mortality experience are based on 100% of the adjusted 1985 Unisex Annuity Table and 100% of the adjusted 1952 Disability Table reflecting experience improvement and Philippine experience.

## 28. SUBSEQUENT EVENT

On July 10, 2019, the Parent Company paid cash dividends to its stockholders of record as of June 14, 2019 amounting to ₱241.58 million out of unrestricted retained earnings for cash dividends as of December 31, 2018.

## 29. EARNINGS PER SHARE

Earnings per share are computed based on the weighted average number of common shares outstanding during the period.

| | 2019 | 2018 |
|---|---|---|
| Net income attributable to the owners of the Parent Company | **₱ 829,514,292** | ₱ 653,803,673 |
| Weighted average number of common shares | **2,015,806,817** | 2,024,500,000 |
| | **₱0.412** | ₱ 0.323 |

Weighted average number of common shares as at June 30, 2018 is the same as the Parent Company's outstanding number of shares as of the said period which is 2,024,500,000 shares. Weighted average number of common shares as at June 30, 2019 is computed as follows:

| | Outstanding shares | Portion of period outstanding | Weighted average number of common shares |
|---|---|---|---|
| As at January 31, 2019 | 2,019,709,900 | 1/6 | 336,618,317 |
| As at February 28, 2019 | 2,017,834,400 | 1/6 | 336,305,734 |
| As at March 31, 2019 | 2,016,431,100 | 1/6 | 336,071,850 |
| As at April 30, 2019 | 2,014,548,500 | 1/6 | 335,758,083 |
| As at May 31, 2019 | 2,013,226,500 | 1/6 | 335,537,750 |
| As at June 30, 2019 | 2,013,090,500 | 1/6 | 335,515,083 |
| | | | **2,015,806,817** |

## 30. ITH REGISTRATION WITH BOI

PGI is registered with the BOI and entitled to ITH exemptions provided under RA of 8479, otherwise known as the Downstream Oil Deregulation Act of 1998.

| | |
|---|---|
| Registered activity | Industry Participant with New Investment in Storage, Marketing and distribution of Petroleum Products- San Fabian Pangasinan |
| Registered capacity | Three (3) tanks<br>5,700 MT fuel gross capacity or 2,100 MT gross capacity per tank |
| ITH entitlement period | 01 January 2014 to 31 December 2018 (5 years) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum (LPG) Products<br>(New Investment Through the Construction of additional 2,000 MT Storage Capacity of the Albuera, Leyte LPG Terminal) |
| Registered capacity | 2,000 MT |
| ITH entitlement period | 01 February 2017 to 31 January 2022 (5 years) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum (LPG) Products<br>(New Investment Through the Construction of additional 1,200 MT Storage Capacity of Astorga, Davao del Sur LPG terminal) |
| Registered capacity | 1,200 MT |
| ITH entitlement period | 01 January 2018 to 31 December 2022 (5 years) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum (LPG) Products<br>(Sogod, Cebu LPG Terminal with additional 1,200 MT LPG Storage Tank Capacity) |
| Registered capacity | Additional 1,200 MT LPG Storage tank capacity |
| ITH entitlement period | 01 June 2018 to 31 May 2023 (5 years) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum (LPG) Products<br>(Balingasag, Misamis Oriental LPG Terminal with additional 2,000 MT LPG Storage Tank Capacity) |
| Registered capacity | Additional 2,000 MT LPG Storage tank capacity |
| ITH entitlement period | 01 June 2018 to 31 May 2023 (5 years) |

As at December 31, 2018, five (5) of the LPG terminals and refilling plant operation is enjoying ITH. While income on other LPG terminal and refilling plant operations, upon which ITH has expired, is subject to MCIT of 2% based on gross profit when it is greater than the RCIT of 30% or when the Group has zero or negative taxable income. The excess of MCIT over RCIT shall be carried forward and credited against RCIT for the three immediately succeeding taxable years.

As at June 30, 2019 and December 31, 2018, the Group is in compliance with the terms and conditions set forth by BOI.

## 31. FAIR VALUE GAIN ON TRANSFERRED REAL ESTATE PROPERTIES THRU DACION EN PAGO COVERED BY THE REHABILITATION PLAN

In 2004, the Parent Company transferred real estate properties to PGI in exchange for PGI's shares of stock as capital equity contribution. The application for the increase in capital stock to ₱2.10 billion by PGI was approved by the SEC on June 30, 2004. Furthermore, the BIR issued a certification on November 5, 2004 and December 29, 2004 certifying the transferred real estate properties in exchange for shares of stock is a tax free exchange.

PGI recognized the transferred real estate properties from Parent Company based on the par value of its capital stock issued to the Parent Company, which is equivalent to the fair values of the real estate properties transferred based on Court Order issued by the Regional Trial Court.

The Parent Company recognized the real estate properties transferred to PGI as equity contribution at cost (carrying amount) instead of fair value of the asset given up as required under PFRS 3, *Business Combinations*. This was a case of an extremely rare circumstance in which management concludes that compliance with a requirement in PFRS would be so misleading that it would conflict with the objectives of consolidated financial statements set out in the Framework. Because of this circumstance, the management of the Parent Company reduced the perceived misleading aspects of compliance by complying with the following disclosures.

The Parent Company's management decided to use the carrying value (cost of the real estate properties transferred to PGI) mainly due to the following reasons:

i) Both the Parent Company and subsidiary are under rehabilitation and the basis for the measurement of the real estate properties transferred was based on Court Order by the Regional Trial Court handling the rehabilitation and not on the basis of the parties involved; and

ii) At the time of transfer, PGI's net asset carrying amounts was below the par value per share of its shares of stock due to its continued losses which resulted to a deficit amounting to ₱989.84 million as at December 31, 2004. The fair value recognition on the transfer of Parent Company's real estate properties to PGI in exchange of PGI's shares of stock in the Parent Company's books and records would result to:

- Recognition of a substantial amount of unrealized fair value gain on real estate properties; and

- Overvalued carrying amount of its investment in subsidiary (PGI) because of the continued losses incurred by PGI that reduces the net carrying amounts of PGI's net assets.

PGI real estate properties transferred to creditors by way of dacion en pago covered by the rehabilitation plan

In 2005 and 2004, PGI transferred significant portion of the above real estate properties to its creditors by way of dacion en pago based on fair values as determined in the Court Order issued by the Regional Trial Court on the rehabilitation plan of PGI. The difference between the fair value and cost (as reported in the books and records by the Parent Company) of these transferred properties amounted to ₱129 million in 2005 and ₱902 million in 2004 or an aggregate amount of ₱1.03 billion. Subsequent to 2005, there was no real estate properties of PGI transferred to creditors by way of dacion en pago.

The ₱1.03 billion as at June 30, 2019 and December 31, 2018 represents the net difference between the fair value and the related cost the Parent Company's real estate properties transferred to PGI creditors in settlement of its debts covered by the rehabilitation plan. This amount was arrived at in the elimination process of intercompany account balances and such difference was accounted for as Fair value gain on real estate properties account and presented under equity section in the consolidated statements of financial position.

Effect of Parent Company's recognition of real estate properties transferred to PGI at cost

Had the Parent Company applied the fair value method of accounting on the recognition of its transferred real estate properties to PGI, the fair value gain on real estate properties should have been recognized as income and would increase the consolidated retained earnings as at June 30, 2019 and December 31, 2018 by ₱1.03 billion.

## 32. OPERATING LEASE AGREEMENTS

The Group has entered in various operating lease agreements for its Visayas and Mindanao sales offices with various local companies for a period of one (1) year renewable thereafter upon mutual agreement of both parties.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and financing activities. The Group's risk management is in the BOD, and focuses on actively securing the Group's short-term to medium-term cash flows by transacting only with reputable third parties.

The Group's principal financial instruments are composed of cash, trade and other receivables (excluding advances to contractors and suppliers), financial assets at FVPL, trade and other payables (excluding deposit for internment services and due to government agencies), dividends payable and short-term debts. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has other financial instruments such as advances to related parties.

The Group is exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include debt and equity investments.

The Group's activities expose it primarily to the financial risks of changes in equity price.

*Interest rate risk*

The Group's exposure to interest rate risk relates primarily to the Group's financial instruments with a floating interest rate. Floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every quarter.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's borrowings (see Note 16). The impact on the Company's equity is immaterial.

| | Increase (Decrease) in Basis Points | Effect in Income Before Tax | Effect in Equity After Tax |
|---|---|---|---|
| **2019** | **1.00** | **(₱88,503,055)** | **(₱61,952,139)** |
| | **0.50** | **(44,251,528)** | **(30,976,069)** |
| | **(1.00)** | **88,503,055** | **61,952,139** |
| | **(0.50)** | **44,251,528** | **30,976,069** |
| 2018 | 1.00 | (₱90,507,805) | (₱63,355,464) |
| | 0.50 | (45,253,903) | (31,677,732) |
| | (1.00) | 90,507,805 | 63,355,464 |
| | (0.50) | 45,253,903 | 31,677,732 |

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments as at June 30, 2019 and December 31, 2018 that are exposed to interest rate risks:

| | Interest rates | Within 1 Year | Total |
|---|---|---|---|
| **2019** | | | |
| **Variable rate** | | | |
| Borrowings | 4.50% to 7.50% | ₱852,003,750 | ₱852,003,750 |
| 2018 | | | |
| Variable rate | | | |
| Borrowings | 3.60% to 4.50% | ₱905,078,052 | ₱905,078,052 |

*Equity price risk*

Equity price risk is the risk that the fair value of equity investment decreases as the result of changes in the value of individual stocks. The Group's exposure to equity price risk arises from investments held by the Group and classified in the consolidated statements of financial position as at FVPL.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower, income before income tax for the periods ended June 30, 2019 and December 31, 2018 would increase/decrease by ₱51.26 million and ₱40.27 million, respectively, as a result of the changes in fair value of financial assets at FVPL. Equity as at June 30, 2019 and December 31, 2018 would increase/decrease by ₱35.88 million and ₱28.19 million, respectively.

Credit risk

Credit risk refers to the risk that counterparties will default on its contractual obligations resulting in financial loss to the Group.

*Credit risk management*

In order to minimize credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Before accepting any new customer, a dedicated team responsible for the determination of credit limits uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade receivables on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

*Credit risk exposure*

The Group's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements arises from the carrying amount financial assets recognized in the Group's consolidated statements of financial position.

In order to minimize credit risk, the Group has developed and maintained internal credit risk gradings to categorize exposures according to their degree of risk of default. The Group uses its own trading records to rate its major customers and other debtors.

The ECL arising from Group's receivables from sale of real estate is determined using the simplified approach and calculates ECL based on lifetime ECL. The Group does not track changes in credit risk, but instead recognizes loss allowance based on lifetime ECL at each reporting date.

For receivables other than those from sale of real estate, the Group's current credit risk grading framework is as follows:

| Category | Description | Basis for recognizing ECL | Stage |
|---|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past due amounts | 12-month ECL | 1 |
| Doubtful | Amount is 120 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL – not credit-impaired | 2 |
| In default | Amount is 120 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired | 3 |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | 4 |

Generally, the maximum credit risk exposure of financial assets is the carrying amount of financial assets as shown in the face of consolidated statements of financial position.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet operating capital requirements. The Group aims to maintain flexibility in funding through an efficient collection of its receivables and from the continuous financial assistance extended by its related parties in the form of loans and advances.

## 34. CAPITAL RISK OBJECTIVE AND MANAGEMENT

The primary objective of the Group's 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 Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The capital that the Group manages includes all components of its equity as shown in the consolidated statements of financial position.

The Group monitors its capital gearing by measuring the ratio of interest-bearing debt to total capital and net interest-bearing debt to total capital. Interest-bearing debt includes all short term and long term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and financial assets at FVPL.

The equity ratios as at June 30, 2019 and December 31, 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Total equity (a) | **₱8,681,752,803** | ₱8,097,198,244 |
| Total assets (b) | **11,786,137,789** | 11,329,220,415 |
| Equity ratio (a/b) | **74%** | 71% |

The Group is not subject to any externally imposed capital requirements.

## 35. FAIR VALUE INFORMATION

*Assets measured at fair value*

The following table gives information about how the fair values of the Group's assets, which are measured at fair value as at June 30, 2019 and December 31, 2018, are determined in particular, the valuation technique(s) and inputs used.

| | **2019** | 2018 | Fair value hierarchy | Valuation technique |
|---|---|---|---|---|
| Financial assets at FVPL | **₱1,025,221,771** | ₱805,336,648 | Level 1 | Quoted prices in an active market |

Fair value of financial assets at FVPL is measured at quoted prices in an active market.

*Assets and liabilities not measured at fair value*

The following financial assets and liabilities as at June 30, 2019 and December 31, 2018 are not measured at fair value on recurring basis but the fair value disclosure is required:

| | **2019** | | 2018 | | | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Carrying value** | Fair value | Carrying value | Fair value hierarchy | Valuation technique |
| ***Financial asset*** | | | | | | |
| Advances to related parties | **₱117,833,224** | **₱136,246,958** | ₱107,370,410 | ₱131,444,881 | Level 3 | (b) |
| ***Non-financial asset*** | | | | | | |
| Investment Properties | **115,497,888** | **115,497,888** | 115,497,888 | 115,497,888 | Level 2 | (a) |
| | **₱233,331,112** | **₱251,744,846** | ₱222,868,298 | ₱246,942,769 | | |

(a) The fair value is determined by applying the market comparison approach. The valuation model is based on the market price of comparable real estate properties in the area in which the Group's investment properties are located.

(b) Advances to related parties

| Significant unobservable input | Relationship of unobservable inputs to fair value |
|---|---|
| Discounted cash flows of zero-rated liabilities from related parties determined by reference to prevailing market lending rate of 4.959% in 2019 and 6.976% in 2018 | The higher the discount rate, the lower the fair value. |

The carrying amounts of cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

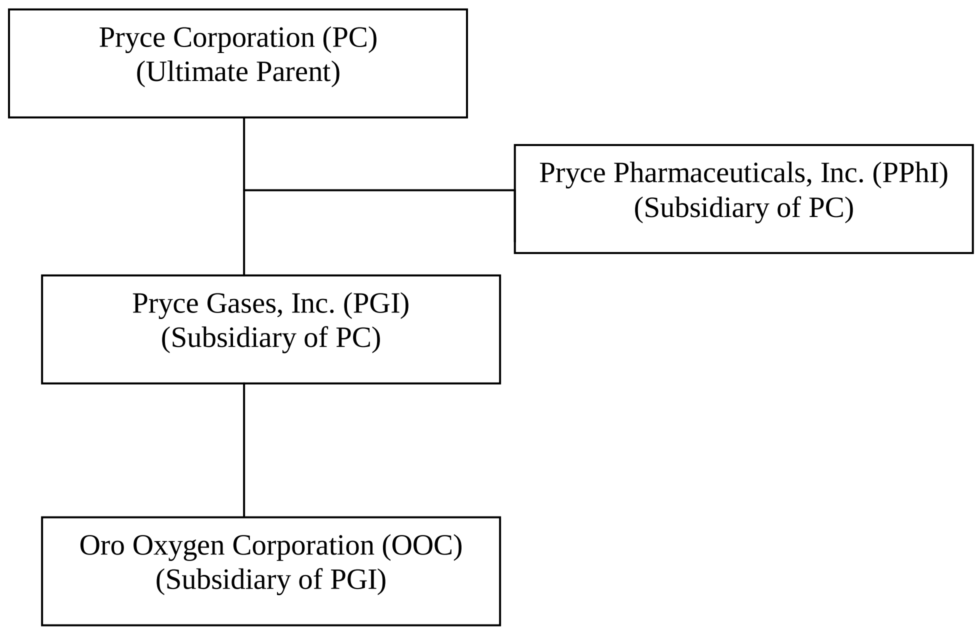
* * *

**PRYCE CORPORATION ANDSUBSIDIARIES**
**ANNEX "A" - FINANCIAL SOUNDNESS**

| | **Jan to Jun 2019** | Jan to Jun 2018 |
|---|---|---|
| **Profitability ratios:** | | |
| Return on assets | **9.15%** | 8.50% |
| Return on equity | **13.30%** | 12.16% |
| Net profit margin | **19.54%** | 17.50% |

| | **Jun. 30 2019** | Dec. 31 2018 |
|---|---|---|
| **Solvency and liquidity ratios:** | | |
| Current ratio | **1.743** | 1.656 |
| Debt to equity ratio | **0.377** | 0.421 |
| | | |
| **Financial leverage ratio:** | | |
| Asset to equity ratio | **1.433** | 1.475 |
| Debt to asset ratio | **0.263** | 0.285 |
| Interest rate coverage ratio | **56.670** | 51.290 |

**PRYCE CORPORATION AND SUBSIDIARIES**
**ANNEX "B" – MAP OF CONGLOMERATE OR GROUP**
**OF COMPANIES WITHIN WHICH THE COMPANY BELONGS**
**JUNE 30, 2019**



**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE A – FINANCIAL ASSETS**
**JUNE 30, 2019**

| Name of issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the statement of financial position | Valued based on market quotation at end of reporting period | Income received and accrued |
|---|---|---|---|---|
| DM Wenceslao | 20,000 | ₱ 195,000 | ₱ 195,000 | ₱ - |
| First Philippine Holdings | 1,409,645 | 117,000,535 | 117,000,535 | |
| Ginebra San Miguel | 4,853,895 | 308,222,333 | 308,222,333 | |
| Global-Estate Resort, Inc, | 102,457,000 | 143,439,800 | 143,439,800 | |
| San Miguel Series 2-B Preference | 490,170 | 36,762,750 | 36,762,750 | |
| San Miguel Series 2-C Preference | 4,318,400 | 328,198,400 | 328,198,400 | |
| San Miguel Sub Series 2-D Preference | 124,650 | 8,974,800 | 8,974,800 | |
| San Miguel Sub Series 2-E Preference | 271,250 | 19,801,250 | 19,801,250 | |
| San Miguel Sub Series 2-F Preference | 212,630 | 15,670,831 | 15,670,831 | |
| San Miguel Sub Series 2-G Preference | 170,000 | 12,495,000 | 12,495,000 | |
| San Miguel Sub. Series 2-I Preference | 180,030 | 13,142,190 | 13,142,190 | |
| Top Frontier | 79,846 | 21,318,882 | 21,318,882 | |
| Total | 114,587,516 | ₱ 1,025,221,771 | ₱ 1,025,221,771 | ₱ - |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS AND EMPLOYEES**
**RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**FOR THE PERIOD ENDED JUNE 30, 2019**

| Name of Debtor | Debtor designation | Balance at beginning of the period | Additions | Amount Collected | Current | Non current | Balance at end of the period |
|---|---|---|---|---|---|---|---|
| 1 . Deguit, Ethelbert | Officer | 1,671,880 | 1,191,841 | 1,166,234 | 1,359,939 | 337,548 | 1,697,487 |
| 2 . Simba, Francis | Staff | 238,549 | 5,482,443 | 4,361,496 | 1,359,496 | - | 1,359,496 |
| 3 . Leung, Carmen | Officer | - | 1,062,133 | 317,899 | 287,975 | 456,260 | 744,235 |
| 4 . Cuady IV, Julius | Staff | - | 1,101,947 | 417,247 | 684,700 | - | 684,700 |
| 5 . Avila, Manuel | Officer | 647,279 | - | 72,783 | 145,566 | 428,930 | 574,496 |
| 6 . Eco, Servillano Jr. | Officer | 666,899 | 90,370 | 196,196 | 224,487 | 336,585 | 561,072 |
| 7 . Espino, Ethel | Officer | 624,869 | 53,632 | 121,323 | 126,234 | 430,944 | 557,178 |
| 8 . Ascaño, Mark Alf | Officer | 406,979 | 535,084 | 419,149 | 194,960 | 327,955 | 522,914 |
| 9 . Fernandez, Julie Ann | Officer | - | 535,084 | 13,377 | 53,508 | 468,199 | 521,707 |
| 10 . Gubalani, Concepcion | Officer | - | 626,106 | 107,573 | 71,920 | 446,613 | 518,533 |
| 11 . Paasa, Christy Ann | Staff | 495,768 | 249,729 | 241,403 | 155,347 | 348,747 | 504,094 |
| 12 . Lagunay, Jose Jr. | Officer | 510,241 | 95,603 | 112,908 | 212,448 | 280,487 | 492,936 |
| 13 . Rafisura, Reynante | Staff | - | 483,302 | 24,165 | 48,330 | 410,806 | 459,137 |
| 14 . Dagalea, Dennis | Staff | - | 425,592 | - | 425,592 | - | 425,592 |
| 15 . Veloso, Rolando | Officer | 479,265 | 4,400 | 61,412 | 160,667 | 261,586 | 422,253 |
| 16 . Villegas, Franz Jonas | Officer | 375,425 | 157,888 | 146,062 | 218,958 | 168,293 | 387,251 |
| 17 . Sumillano, Jeremy Riel | Officer | 403,087 | 1,584,836 | 1,602,350 | 268,353 | 117,219 | 385,572 |
| 18 . Pingli, Allian | Officer | 382,109 | 94,900 | 126,882 | 350,126 | - | 350,126 |
| 19 . Villalobos, Randy | Staff | 145,726 | 665,395 | 495,471 | 315,650 | - | 315,650 |
| 20 . Baco, Michael | Staff | 133,093 | 237,430 | 82,997 | 287,526 | - | 287,526 |
| 21 . Alviar, Bernardo | Staff | - | 1,488,009 | 1,277,309 | 210,700 | - | 210,700 |
| 22 . Pongos, Zachary | Officer | 179,128 | 50,525 | 24,100 | 205,553 | - | 205,553 |
| 23 . Competente, Roque | Officer | 219,411 | 132,555 | 149,229 | 189,792 | 12,946 | 202,738 |
| 24 . Limba, Elmer | Staff | - | 1,039,802 | 844,310 | 195,492 | - | 195,492 |
| 25 . Del Rosario, Daisy | Staff | 195,862 | 14,140 | 45,224 | 164,778 | - | 164,778 |
| 26 . Escaño, Rafael | Officer | 256,657 | 174,299 | 274,449 | 156,508 | - | 156,508 |
| 27 . Ragas, Ma. Christa | Staff | - | 253,600 | 99,000 | 154,600 | - | 154,600 |
| 28 . Aquino, Romulo | Staff | - | 206,815 | 53,181 | 153,634 | - | 153,634 |
| 29 . Luzano, Jun Ray | Staff | - | 567,400 | 420,591 | 146,809 | - | 146,809 |
| 30 . Matuguina, Ronald | Staff | - | 136,180 | 1,310 | 134,870 | - | 134,870 |
| 31 . Olayvar, Rico | Officer | 150,064 | 1,762 | 23,050 | 128,776 | - | 128,776 |
| 32 . Sangalang, Alexander | Staff | - | 978,711 | 851,072 | 127,639 | - | 127,639 |
| 33 . Dajes, Jessie | Staff | - | 141,245 | 15,600 | 125,645 | - | 125,645 |
| 34 . Seguritan, Rolly | Staff | - | 494,158 | 368,736 | 125,422 | - | 125,422 |
| 35 . Pacheco, Ariel | Staff | - | 297,502 | 173,756 | 123,747 | - | 123,747 |
| 36 . Asuncion, Michael | Staff | - | 120,418 | - | 120,418 | - | 120,418 |
| 37 . Bonilla, Gidion | Staff | 182,565 | - | 71,410 | 111,155 | - | 111,155 |
| 38 . Sumalinog, Wilmar | Staff | - | 452,747 | 341,684 | 111,063 | - | 111,063 |
| 39 . Lumahang, Jimmy | Staff | - | 109,490 | - | 109,490 | - | 109,490 |
| 40 . Isidro, Joy | Officer | 158,343 | 554,053 | 603,438 | 108,957 | - | 108,957 |
| 41 . Various Employees | Staff | 23,272,052 | 8,862,769 | 4,513,200 | 16,211,958 | 11,409,663 | 27,621,621 |
| **TOTAL** | | **31,795,251** | **30,753,897** | **20,237,578** | **26,068,788** | **16,242,781** | **42,311,569** |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**JUNE 30, 2019**

| Name and designation of creditor | Name and designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written-off | Current | Non-Current | Balance at end of period |
|---|---|---|---|---|---|---|---|---|
| Pryce Gases, Inc. | Oro Oxygen Corporation | 171,498,383 | 1,917,449 | 19,859,859 | - | - | 153,555,973 | 153,555,973 |
| Pryce Gases, Inc. | Pryce Corporation | 80,600,000 | 75,722,164 | 150,046,422 | - | - | 6,275,741 | 6,275,741 |
| Pryce Corporation | Pryce Gases, Inc. | 250,000,000 | 300,000,000 | 250,000,000 | - | - | 300,000,000 | 300,000,000 |
| Pryce Gases, Inc. | Pryce Pharmaceuticals, Inc. | 1,971,291 | 131,053 | 1,131,053 | - | - | 971,291 | 971,291 |
| | | 504,069,674 | 377,770,666 | 421,037,335 | - | - | 460,803,005 | 460,803,005 |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE D – INTANGIBLE ASSETS - OTHER ASSETS**
**JUNE 30, 2019**

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other charges additions (deductions) | Ending balance |
|---|---|---|---|---|---|---|
| Goodwill | P 78,148,305 | P – | P – | P – | P – | P 78,148,305 |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE E – LONG TERM DEBT**
**JUNE 30, 2019**

| Title of issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long term debt" in related statement of financial position | Amount shown under caption "Long-term debt" in the related statement of financial position |
|---|---|---|---|
| -N I L- | Not Applicable | | |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)**
**JUNE 30, 2019**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| -N I L- | Not Applicable | Not Applicable |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**JUNE 30, 2019**

| 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 filed | Nature of guarantee |
|---|---|---|---|---|
| -N I L- | | Not Applicable | | |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE H – CAPITAL STOCK**
**JUNE 30, 2019**

| Title of issue | Number of shares authorized | Number of shares subscribed and outstanding | Number of shares reversed for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common shares | 2,098,000,000 | 2,013,090,500 | – | 460,173,464 | 60,457,965 | 1,492,459,071 |

**PRYCE CORPORATION (Parent Company)**
**Aging of Accounts Receivable**
**As of June 30, 2019**

| Type of Accounts Receivable | Total | 1-30 days | 31-90 days | 91-180 days | Over 180 days | 1-2 Years | 3-5 years | 5 Years - above | Past due accounts |
|---|---|---|---|---|---|---|---|---|---|
| **a. Trade Receivables** | | | | | | | | | |
| 1. Subdivision/Condo | **1,337,811** | 328,786 | 390,488 | 438,969 | 179,568 | | | | |
| 2. Low-cost housing | **1,511,577** | 320,914 | 311,819 | 312,199 | 325,159 | 241,486 | | | |
| 3. Memorial Parks | **111,671,567** | 15,594,836 | 16,802,144 | 18,728,873 | 20,935,550 | 21,185,070 | 18,425,094 | | |
| 4. Head Office | **52,562** | 52,562 | | | | | | | |
| Totals | **114,573,517** | **16,297,098** | **17,504,451** | **19,480,041** | **21,440,277** | **21,426,556** | **18,425,094** | **-** | **-** |
| Less: Allow. For Doubtful Acct. | | | | | | | | | |
| **Sub Total** | ***114,573,517*** | ***16,297,098*** | ***17,504,451*** | ***19,480,041*** | ***21,440,277*** | ***21,426,556*** | ***18,425,094*** | **-** | **-** |
| **b. Non-trade Receivables** | | | | | | | | | |
| Advances to Officers & Employees | **5,826,617** | 1,516,325 | 1,351,620 | 1,453,891 | 1,504,781 | | | | |
| Advances to Suppliers & Contractors | **1,116,971** | 410,232 | 426,893 | 279,846 | | | | | |
| Others | **2,753,226** | 410,221 | 630,549 | 845,004 | 867,452 | | | | |
| Totals | **9,696,814** | **2,336,778** | **2,409,062** | **2,578,741** | **2,372,233** | **-** | **-** | **-** | **-** |
| Less: Allow. For Doubtful Acct. | | | | | | | | | - |
| **Sub Total** | ***9,696,814*** | ***2,336,778*** | ***2,409,062*** | ***2,578,741*** | ***2,372,233*** | **-** | **-** | **-** | **-** |
| **Grand Total** | ***124,270,331*** | ***18,633,876*** | ***19,913,513*** | ***22,058,782*** | ***23,812,510*** | ***21,426,556*** | ***18,425,094*** | **-** | **-** |

**Accounts Receivable Description**

| Type of Receivables | Nature/Description | Collection period |
|---|---|---|
| 1. Installment Receivables | **Subdivision** | 1-7 years |
| | **Low cost housing** | 1-15 years |
| | **Memorial parks** | 1-5 years |
| | **Condominium Office** | 1-5 years |
| | **Commercial lot** | 1-3 years |
| | **Head Office** | 1-3 months |