

Major Risk Factors In Pryce Corp.'S Real Estate Business and Its Management

The parent Company's principal business is the development and sale of memorial park lots, a real estate business, and may involve the following risks:

1. Risk of over-optimistic estimation of an area (for a new memorial park development) in terms of the achievability of sustainable revenue and profit and the shortness of period taken to reach such sustainability for the new park. The said risk is avoided by doing a careful study of the area using criteria that measure the stability and growth of the local market's buying capacity and the degree of robustness of the area's economy. The area is assessed in terms of number of existing/competing memorial parks, mortality rate and population growth, levels of net income and wages, capacity for steady employment, which is dependent on the area's capability and potential for business and industrial growth/expansions. The area's economy is likewise assessed as to what extent it is affected by the country's economic climate and growth.
2. Risk of decline in revenues and profitability, if not income loss, usually due to a combination of: a) competitors' pricing tactics and marketing/sales efforts that tend to reduce the Company's market share; b) local market's unanticipated feeble response to designed marketing/sales programs; c) creeping or unabated inflation causing increased operating expenses and low sales since purchase of memorial lots is regarded by many as low priority expenditure; d) ingrained cultural practices like backyard burial. This risk is addressed and mitigated by the following:
 - a) The Company has firm belief and pride in the exceptional quality of its products and services relative to its competitors, and has a strong commitment to its customers in maintaining such superior quality. Such commitment and consistency of higher quality entail costs, a prime reason why the Company's products are priced above those of the competitors. Through the Company's park business managers and sales people, the prospective or target customers are educated on why the Company's products are priced higher than the competitors'. Further explained to these customers, are the benefits of buying such products from a Company that is dedicated to consistent high product quality and has long and significant experience in the development and management of memorial parks. Notwithstanding a higher-priced product, the Company's prospective buyers can purchase the same by way of 'soft and easy terms', as majority of its customers had done so, whereby they pay via instalment payments with no downpayment or interest charge for as long as three years.
 - b) Management regularly meets at least twice a year with its regional operations officers and all its park business managers to actively discuss and evaluate, among many other things, how the market reacts to the Company's current marketing strategy and sales programs and decide decisively on what manner of response or plan of action is to be undertaken.
 - c) Pricing of the products and services are adjusted, when necessary or called for, to a calculated level (such as discounts given) so that it will not negatively

impinge on the buyer's decision to buy. Management believes that the price of memorial lots and other services should be indexed against the inflation rate.

- d) On backyard burials, the Company continues to lobby with the municipal office of the area concerned to pass a specific ordinance banning such practice since there are laws (e.g., Code on Sanitation, P.D. No. 856) that prohibit such burials because of public health hazards.
3. Risk of a reduced capacity to continually maintain the park to its committed first class standards. Other than the regular increase in price to cope with inflation, this is addressed by increasing the charge on contribution to the park maintenance fund, which form part of the gross price of the memorial lot. Separately though, and when necessary, the memorial park association(s) imposes an assessment on the lot owners who after all are the stakeholders of the memorial park. Without this assessment(s), a situation leading to the deterioration of the park's maintenance could ensue, which absolutely cannot be allowed given the Company's avowed commitment and responsibility to maintain the memorial parks at set standards. Such commitment and assurances benefit the lot owners and users of the park as their investment are protected in the long run.
4. Risk of other developers putting up their memorial park despite limited market.

The discussion on Financial Risk Management is incorporated by way of reference to relevant parts of **Notes to the Financial Statements**, under the heading ***Financial Risk Management: Objectives and Policies***.