# COVER SHEET

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S.E.C. Registration Number

P R Y C E

C O R P O R A T I O N

(Company's Full Name)

1 7 / F P R Y C E C E N T E R C H I N O

R O C E S A V E N U E M A K A T I C I T Y

(Business Address: No. Street City/ Town / Province)

| Jose Ma. C. Ordenes / Earl Christian L. Lerio | (02) 8 899-4401 |
|---|---|
| Contact Person | Company Telephone Number |

| 1 2 | 3 1 | 1 7 - A | 0 8 | 2 0 |
|---|---|---|---|---|
| *Month* | *Day* | FORM TYPE | *Month* | *Day* |
| Fiscal Year | | | ANNUAL MEETING | |

Secondary License Type, if Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

**359** (as of May. 31, 2020)

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

**SECURITIES AND EXCHANGE COMMISSION**

**SEC Form 17-A**
**ANNUAL REPORT PURSUANT TO SECTION 17**
**OF THE SECURITIES REGULATION CODE AND SECTION 141**
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended December 31, 2019

2. SEC Identification Number 168063 3. BIR Identification No. 000-065-142-000

4. PRYCE 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. Telephone No. (632) 899-44-01 (trunkline)

9. (formerly PRYCE PROPERTIES CORPORATION)

10. Securities registered pursuant to Sections 4 and 8 of the RSA

| Title of Each Class | No. of shares |
|---|---|
| Issued & Outstanding Common Shares | 2,024,500,000 |
| Treasury Shares | 36,598,731 |
| Outstanding Common Shares | 1,987,901,269 |

11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes [ x ] No [ ]

Philippine Stock Exchange Common Stock

12. Check whether the issuer:
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that the registrant was required to file such reports);
Yes [ x ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [ x ] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.

Market value of voting stock, held by non-affiliates of the registrant, is approximately Php5,696,565,994 based on 1,389,406,340 shares at P4.10 per share, which was the market price at the close of the last trading day of the first quarter or March 31, 2020.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. -- Not Applicable to Issuer

# PART I - BUSINESS AND GENERAL INFORMATION

## Item 1. Business

### *Background*

Pryce Corporation ("PC" or the "Company"), formerly Pryce Properties Corporation, was incorporated on September 7, 1989. It was initially established as a property holding and real estate development company. The Company is a parent company to the subsidiaries Pryce Gases, Inc. ("PGI") and Pryce Pharmaceuticals, Inc. (PPhI) which business are discussed below. Pryce Corporation is a publicly listed company in the Philippine Stock Exchange with the stock symbol "PPC".

PC concentrates its operations in Mindanao and is principally involved in the development of memorial parks and sale of memorial lots. In the past, it has developed residential and commercial properties; it was previously engaged in the hotel business (Pryce Plaza). PC owns and operates a total of thirteen (13) memorial parks in Mindanao's major cities: Cagayan de Oro City, Iligan City, Ozamiz, Polanco (near Dipolog City), Zamboanga City, Davao City, including the smaller memorial parks in Manolo Fortich (at the boundary of Cagayan de Oro City and Bukidnon), Malaybalay City in Bukidnon, Malita in Davao Occidental, Bislig in Surigao del Sur, Alabel in Saranggani, Pagadian City, and the most recent in Butuan City, which was launched on January 25, 2019.

Pryce Gases, Inc. ("PGI") is the Company's subsidiary, which is principally engaged in the importation and distribution of liquefied petroleum gas (LPG) under the brand name *PryceGas*; it also produces and sells industrial gases. PC's ownership in PGI 91.4%.

PGI has a wholly-owned subsidiary Oro Oxygen Corporation ("OOC") which operates in Luzon and the National Capital Region ("NCR"). It sells/distributes PGI's LPG product (PryceGas) and sells industrial gases that is sourced independently from PGI.

Another subsidiary of the Company is Pryce Pharmaceuticals, Inc. (PPhI), a wholesaler and distributor of private branded multi-vitamins and some 'over-the-counter' generic drugs. It was organized to primarily take advantage of the 'Generic Medicines Law'. PPhI is a relatively small player in the pharmaceutical business as it was organized in September 2005.

### *Corporate Rehabilitation of Pryce Corporation*

Background

PC filed a petition for rehabilitation with the Regional Trial Court, Branch 138 (later Branch 149) of Makati ("the Commercial Court") on July 9, 2004; following this, the same court, in an order dated July 13, 2004, appointed a Receiver and ordered a stay in the settlement of all debts with the banks and trade creditors. In the years preceding the filing of said petition, the Company experienced a series of downturns in its real estate revenues due to the effects of the Asian financial crisis of 1997. This resulted in declines in cash flows that led to its inability to service its maturing bank debts. The Company had been negotiating with its bank creditors, as early as three years prior to the filing of same petition, for restructuring and/or payment of its debts via dacion en pago. However, no agreement was finalized because of several sticking points on the selection and valuation of assets as well as the accrual of interest and penalties. Meantime, China Banking Corp. ("CBC") and the Bank of Philippine Islands ("BPI") issued legal notices demanding payments. BPI, in fact, subsequently foreclosed on some of PC's assets mortgaged to the former.

In the midst of the aforesaid circumstances and stand-off with the banks and holders of the Long Term Commercial Papers (LTCP), Management decided to file a petition for rehabilitation to avert the following: a) the scenario of ballooning obligations owing to the continuous accrual of interest and penalties arising from to the impasse in debt negotiations; and b) the foreclosures on PC's real estate assets and deficiency claims that the banks would file, which would result in the Company's loss of viability as a going concern. The rehabilitation plan submitted by PC sought to pay off all outstanding loan obligations and achieve a debt-free scenario for the company to enable it to start on a clean slate. This would be achieved through dacion en pago of its real estate properties and would not involve any restructuring of its debts, given its tight liquidity position and low debt service capacity.

On December 1, 2004, the Receiver submitted his comments and recommendations on the proposed rehabilitation plan of the Company, following which the rehabilitation plan of the company was approved by the Commercial Court thru an order it issued on January 17, 2005, which was implemented by the Receiver.

PC's rehabilitation proceedings was closed and terminated in late July 2015. PC's corporate rehabilitation would have been terminated much earlier had it not been for the opposition of two creditor banks to PC's rehabilitation. These banks went all the way to Supreme Court ("SC") but PC eventually secured favorable rulings in that court.

Court Litigations in Relation to PC's Rehabilitation Proceedings

The two creditor-banks BPI and CBC filed their respective petitions for review of the Commercial Court's orders before the Court of Appeals ("CA") in February, 2005 opposing the rehabilitation plan.

In the BPI case, the 1st Division of the CA issued its decision on May 3, 2006 in favor of BPI. The Company filed a Motion for Reconsideration on May 26, 2006 and the CA on May 23, 2007 reversed itself, ruling in favor of PC thereby affirming the ruling of the RTC-Makati. BPI filed a Petition for Review on Certiorari with the SC which was denied on January 30, 2008. BPI then filed a Motion for Reconsideration, but this was likewise denied with finality when on April 28, 2008 the SC ruled that BPI did not present substantial argument to warrant a modification of the SC's earlier resolution.

The court litigation with CBC at the CA began in February 2005; it was a protracted one and went all the way to the SC. Finally, on March 11, 2014, the Company received a resolution from the SC *En Banc*, promulgated on February 18, 2014, in *Pryce Corporation vs. China Banking Corporation, G.R. No. 172302*, in which the court en banc found the arguments of the Company meritorious and, thus, RECONSIDERED and SET ASIDE the earlier decision of the SC First Division and granted the Company's motion for reconsideration. This promulgation in effect upheld the orders of Commercial Court: (i) stay order; (ii) order giving due course to the petition for rehabilitation; and, (iii) order finding the Company eligible to be placed in a state of corporate rehabilitation, approving the rehabilitation plan, identifying assets to be disposed of, and determining the manner of liquidation to pay the liabilities.

Termination of the Company's Rehabilitation Proceedings

On May 19, 2015, PC filed the motion to terminate the proceedings for corporate rehabilitation. Hinundayan Holdings Corp. filed a Manifestation with the Commercial Court stating that: 1) it was the only remaining LTCP creditor of PC; 2) it had made certain arrangements with it on the settlement of the said LTCP obligation, it being an affiliate of PC; and 3) it endorsed PC's motion to terminate the rehabilitation proceedings.

On July 31, 2015, PC received an Order dated July 28, 2015 from the Commercial Court. The Order granted PC’s motion to terminate its corporate rehabilitation proceedings and declared the rehabilitation proceedings of PC as closed and terminated. (The closure and termination of PC’s rehabilitation proceedings formally became final when the Commercial Court issued a certificate of finality of judgment on March 13, 2019.)

***Product Mix***

Before 1997, PC’s principal business was property development which accounted for the bulk of the company’s revenues and income. Subsequently, LPG and industrial gases (product lines of the subsidiary PGI) dominated the Company’s business, as a result of which the name was changed from “Pryce Properties Corporation” to “Pryce Corporation”. The name change was approved by the SEC on July 29, 1997. The Philippine Stock Exchange (“PSE”) then reclassified the Company’s stocks from “Property” to “Manufacturing, Trading and Distribution” on September 25, 1997. Subsequently, the Company’s stock was reclassified to "Chemicals", which became effective on January 2006, pursuant to PSE’s circular that stock classification should be to the industry from which a company is generating the majority or bulk of its revenues.

PGI’s main business is the sale of LPG (cooking gas) that principally caters to LPG household consumption. PGI has a complete integrated infrastructure that covers the entire process from importation of LPG up to its distribution, including wholesale and retail sales. Its LPG business accounts for about 95% of total sales revenues. The other business of PGI is the sale of industrial gas, which normally accounts for less than 5% of total revenues.

PGI’s LPG business began in late 1996 by way of a supply agreement with one of the three major oil companies in the country and enabled it to market LPG using the name *PryceGas*. In the following year, it started the construction of its own sea-fed terminal facilities and in-land refilling plants in various strategic locations in the Visayas and Mindanao (“Vis-Min”).

PGI, manufactures and distributes oxygen (medical and industrial) and acetylene as well as trades in other gases such as argon, carbon dioxide and nitrogen. Its industrial gas manufacturing facilities consist of several plants in different locations. In recent years it has decided to limit or stop the manufacturing of said gases in certain areas where it is not economical to operate due to the rising costs of production, plant maintenance, and increasing occurrence of brownouts; it instead procured those gases from third-party sources.

PC’s property business involves the acquisition of raw land and its conversion into various developments, mostly memorial parks; in the past it included residential subdivisions and housing, business parks, and commercial centers. These were mostly designed for the medium and upscale markets except for two low-cost housing projects. The Company has regional sales groups in Mindanao that take charge of the selling of real estate in that island.

In 1996, two years after PC built its first memorial park in Cagayan de Oro City, the Company decided to undertake a policy shift in regard to its property development activies; it decided to focus its efforts in the development and selling of memorial lots. In just a span of 5 years (1996 to 2001) after such decision, the Company was able to complete five (5) more memorial parks in the following locations: Iligan City, Zamboanga City, Polanco in North Zamboanga (i.e., near Dipolog City), Ozamiz City and Davao City. All of these major memorial parks (discussed in more detail below) are operational, although certain areas in these parks are reserved for future development. Then, beginning in 2005, the Company commenced the development of what it calls "boutique" (or smaller-size) memorial parks. Since then six (6) boutique memorial parks were essentially completed in the places of: Manolo Fortich in Bukidnon, Malita in Davao Occidental, Bislig in Surigao Del Sur, Malaybalay City in Bukidnon, Alabel in Sarangani and Pagadian City. (The parks in Manolo Fortich and Malaybalay City were later upgraded to the company’s Class A category of memorial parks.) The most recent memorial park is that in Butuan City, which was completed in December 2018 and opened in January 2019.

As a real estate company, the PC's main activity is the selling of its memorial park inventories. (The Company has completed its development of non-memorial park projects and continues to sell off the remaining inventories, after which, the company will concentrate its development activities on memorial parks. The Company still has some remaining upscale subdivision lots in Cagayan de Oro City and Davao City, as well as office condominium units, also in Davao City, which the Company is seeking to dispose.)

Another product group that belongs to the mix consists of private branded multi-vitamins and some 'over-the-counter' generic drugs that belong to the Company's subsidiary, PPhI. PPhI, being a relatively new player in the industry and having a modest capitalization, is not expected in the near term to provide significant contribution to the Company's business. It is, however, expected to gradually grow in the long term since the generic drugs business is a substantial industry that continues to expand.

***Personnel and Manpower***

The Company has a regular workforce of 262 employees in its real estate business and is composed of the following: 56 are in administrative positions, 203 are in operations and 3 are senior officers. Compared to 2018, the number of employees increased by 7 in the operations group mainly because of the additional memorial park that was opened and launched in Butuan City in January 2019.

The subsidiary, PGI (including its subsidiary Oro Oxygen corporation or "OOC"), has 2,557 regular personnel, of which 644 are in the technical services group, 1,484 are in operations, 400 in administration and 29 are officers.  A large increase of 1,374 personnel occurred in PGI (includes subsidiary OOC) in 2019 compared to the previous of 1,183 in 2018 due to the expansion of facilities in several regions, installation various refilling plants and sales centers nationwide, and the creation of the *Home Delivery* project (wherein customers could place & follow up their orders for LPG thru a hotline number). This again is in line with the objective of bringing its LPG products closer to the household consumers of LPG as well as to widen the scope of its market reach. The administration personnel are those who mainly provide support and 'back office' functions, which consist mainly of personnel in the administrative services department and finance & accounting services department. The operations group is composed of employees whose tasks chiefly relate to production, transport of products, sales/marketing functions. The technical personnel are those who provide technical services/ assistance to gases production, LPG operations, cylinder maintenance and autogas operations.

The workforce numbers above do not include non-regular personnel, i.e., probationary and contractual ones. The number of regular employees expected to be hired in the following year 2020 will depend on developments and growth in the company's business and on the number of employees who may resign or retire within the said year. The employees are not subject to Collective Bargaining Agreement (CBA) since the parent company and its subsidiary are non-unionized.

***Marketing and Sales***

PGI has a well-organized distribution network. It has synergies formed from shared distribution centers and long experience in selling and servicing of its products.  Customer service for new and repeat customers is made better by a system wherein the sales/marketing function is separate from the service functions. Sales associates are solely responsible for generating new customers, while the sales outlets/centers service the LPG requirements of existing customers.

PGI's LPG sales centers and refilling plants render 24-hour service and have stay-in personnel. These sales centers sell cylinders, stoves, replenish empty tanks of dealers and conduct promotional activities for existing PGI customers. These centers also cater to phoned-in or texted orders.

The dealers are PGI's main outlets for selling LPG; these dealers, however, do not have exclusivity contracts for dealership. Dealers' stocks are replenished from PGI's sales centers or from its LPG marine terminals or refilling plants. Dealers have the option of having their empty cylinders refilled at refilling plants at a price lower than sales outlet price. Large dealers are allowed to have their own sub-dealers and sales outlets.

On the real estate business side, the company, for marketing purposes, divides Mindanao into two regions: the Northern and the Southern (inclusive of Zamboanga and Butuan) operations. A region is managed by a regional head and has a marketing and selling group headed by a sales and marketing manager, under whom are the different memorial park business managers who are compensated and incentivized according their sales performance. Each region is responsible for periodically improving its marketing plans and strategies in order to meet the agreed sales targets. The park business managers are responsible for recruiting its sales force, which are composed of unit managers and sales associates who are compensated on commission basis. A park business manager is also responsible for the maintenance of their park, through their park supervisors.

***Competition***

*Pryce's LPG & Gas Business*

PGI's LPG business, under the name PRYCEGAS, had operated in the Vis-Min areas for more than 20 years; it competes with the main players Petron (Gasul brand), Phoenix (Petronas brand), and Isla Gas (Solane brand). However, PGI is a relatively new player in Luzon having entered the fray in June 2014. It competes with Petron, Liquigaz, Isla Gas, as well as with South Pacific, Inc. (SPI), the latest entrant in Luzon, whose marine storage terminal (in Calaca, Batangas) went into operation in late 2015. At the refilling plant level, PGI competes with numerous independent refilling plants all over Luzon.

PGI has increased its LPG storage capacity and, as of March 31, 2020, has aggregated to 34,082 metric tons (MT). This total capacity consists of import marine (sea-fed) terminals and inland refilling plants which are strategically located in Luzon, Visayas, and Mindanao (see tabulation under the discussion below titled ***LPG Plants***). Following PGI's expansions in 2018 – 2019, its total storage capacity for its Vis-Min operations has increased to 23,671 MT. This is the biggest compared to any of its competitors in the Vis-Min area. In Luzon, PGI's 8,500-MT marine storage capacity is one among the three largest storage facilities, which includes those of Liquigaz and SPI. On product distribution capability, PGI has built sixty-three (63) refilling plants strategically located in various parts of the country. The large capacities of its marine terminals and numerous refilling plants all over the country has enabled PGI to cover the market on a much wider scale and bring its LPG products closer to the consumer market. Moreover, the network of its import terminals and refilling plants gives PGI the flexibility to transfer its products to ensure continuity of supply in any area it operates so as to prevent stock-outs due to fortuitous events.

PGI sources its LPG from Asian suppliers that ship the LPG to its import terminals using marine carriers with capacities of 2,500-3,500 MT. The storage capacities of its terminals in Vis-Min could take a single-port discharge or a maximum of two-port discharge from a shipload. This gives PGI some cost advantage over competitors, which, because of their smaller storage capacities would need multiple port deliveries to fully unload the contents of one carrier.

The Department of Energy reports that PGI has the following LPG market shares in the following regions per 2019: 24% in Mindanao, 20% in Visayas, and 10% in Luzon (including NCR). PGI is a major industry player in the Philippine LPG industry and has an 11% share of the country's total market or equivalent to 197,000 MT. It is the 2nd largest industry player in both the Visayas and Mindanao areas, and has a 22% market share of those areas combined.

PGI's industrial gas business (which accounts for less than 5% of PGI's total revenue) competes with about thirteen other companies, with Linde Philippines, Inc. and Air Liquide considered to be its closest major competitors. It has to contend with different environments for its products (oxygen, acetylene, argon, nitrogen, carbon dioxide, and compressed air) in terms of the extent and composition of the competition. PGI's Vis-Min operations account for the bulk of its industrial gas revenues. Management estimates that PGI has roughly 30% of the combined Mindanao and Visayas markets.

A more specific discussion of price and market demand is provided in the section on *Management's Discussion and Analysis* under Item 6 of Part II (Operational and Financial Information of this report).

*Pryce's Memorial Park Business*

The real estate business in the Philippines is very competitive. The extent and composition of the competition varies by geographic region and price segment. Real estate activity used to be concentrated in the NCR and other big urban areas, however, it has now spilled over to various population centers and cities in Mindanao and Visayas.

The real estate business of the Company is concentrated on its memorial parks which compete with others that have varying qualities and character but few are comparable to the Company's memorial parks in terms of natural scenery or quality of development and maintenance. The significant competitors are each shown below the Company's *Pryce Gardens* memorial parks.

A. Cagayan de Oro Gardens (Cagayan de Oro City)
- Greenhills Memorial Park
- Divine Shephed Memorial Park
- Golden Haven Memorial Park

B. Ma. Cristina Gardens (Iligan City)
- St. Michael Park
- there exist a public and several Chinese cemeteries but these are not considered significant competitors

C. Zamboanga Memorial Gardens (Zamboanga City)
- Forest Lake Memorial Park
- Ayala Public Cemetery
- Chinese Cemetery
- Lund Memorial Park
- Golden Haven Memorial Park

D. North Zamboanga Gardens (Dipolog City)
- Century Memorial Park
- Millenium Cemetery (this was foreclosed by a government bank and appears as not being effectively marketed)
- Gulayon Public Cemetery

E. Ozamiz Memorial Gardens (Ozamiz City)

- Malindang Memorial Gardens
- Ozamiz Chinese Cemetery

F. Mt. Apo Memorial Gardens (Davao City)
- Davao Memorial Park
- Buhangin Memorial Park
- Toril Memorial Park
- Forest Lake Memorial Park
- Manila Memorial Park
- Calinan Memorial Gardens

G. Pryce Gardens, CDO-Manolo Fortich (at junction of CDO and Bukidnon)
- three small public cemeteries located in Bugo, Agusan & Tablon
- the private cemeteries in the city of Cagayan de Oro City, Golden Haven and Divine Shepherd, although remote, may also be considered competitors
- Damilag Cemetery in Bukidnon

H. Pryce Gardens – Malaybalay (Bukidnon)
- Shepherd Meadows Memorial Park
- Valencia Memorial Gardens

I. Pryce Gardens – Malita (Davao Occidental)
- Backyard interment
- Inaburan Public Cemetery

J. Pryce Gardens – Bislig (Surigao del Sur)
- Bislig Public Cemetery
- Abaya Memorial Park
- Salazar Memorial Park

K. Pryce Gardens – Alabel (Sarangani)
(most ‘competitors’ are some distance away in General Santos City)
- Forest Lake Memorial Park (Apopong, General Santos City)
- Monte Cielo Memorial (Conel, General Santos City)
- Holy Trinity Memorial (Polomolok, South Cotabato)
- Spring Public Cemetery

L. Pryce Gardens – Pagadian
- Chrysanthemum Memorial Garden (Barangay Tiguma)
- Pagadian Memorial Park (Barangay Paglaom)
- Pielago Memorial Park (Barangay Paglaom)
- Pagadian Public Cemetery (Barangay Paglaom)

M. Pryce Gardens – Butuan
- Uraya Memorial Gardens

***Government Approvals, Licenses and Permits***

Licenses, permits and other government-required approvals have been obtained by PGI for the operation of all of its production facilities. It is registered with the Board of Investments (“BOI”) under the Omnibus Investments Code of 1987 (Executive Order No. 226 as amended by RA No. 7369), as a new operator of distribution facilities for LPG in various Visayas and Mindanao regions on a non-pioneer status. PGI is entitled to certain tax and non-tax incentives such as income tax holiday ranging from four to six years and duty-free importation of capital equipment and others.

PGI's San Fabian terminal in Luzon is also registered with the BOI and enjoys tax incentives. The company owns the registered brand name, "PRYCEGAS" for its cylinders, but it does not have any patent to a product or process.

As to the Company's property development business, the requisite development permits and Licenses to Sell have been secured from the local government units and the Housing and Land Use Regulatory Board (HLURB) for its various real estate projects. The Company essentially complies with the conditions and terms of the said license, such as the delivery of the lot/unit title to the buyer upon full payment of the price thereof; payment of real estate taxes/assessments on a lot or unit until the title has been transferred to, or the buyer has taken possession of the property; and display of the license and Certificate of Registration in a conspicuous place in the principal office of the owner/developer and copy thereof at its branch office(s).

***Development Cost in relation to Revenues***

Shown below are the amounts that the Company group has spent for its development activities in the last three fiscal years:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Development Cost | 1,180,093,869. | 1,666,673,157 | 589,352,628 |
| Percentage to Revenues | 11.10% | 16.22% | 6.39% |

The increase in development cost pertain mainly to ongoing expansions in terminals and construction of refilling plants nationwide, acquisition of land for such plants as well as for a future import terminal, and purchases of machinery and transport equipment.

***Environmental Regulations***

PGI's operations are currently compliant in all material aspects with the applicable environmental regulations and standards. However, there can be no assurance that Philippine regulators will not impose additional or more stringent regulations on the gas industry in general or on PGI and its operations in the future that could significantly affect PGI's costs of sales or operating expenses.

The Company's real estate operations are subject to various laws enacted for the protection of the environment. PC has complied with all applicable Philippine environmental laws and regulations. It is mandated to secure an Environmental Compliance Certificate from the Department of Environment and Natural Resources. Non-compliance with the stipulations embodied in the said certificate will cause its suspension or revocation and a fine not to exceed fifty thousand pesos (P50,000.00) for every violation. The Company believes that compliance with such laws is not expected to have a material effect upon its capital expenditures, earnings or competitive position.

***Major Risk Factors and their Management***

*Major risk factors in PC's real estate business and their 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 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:

i. 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 to five years.

ii. 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.

iii. 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.

iv. 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 forms 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.

*Major risk factors and their management in PGI's LPG and industrial gas business*

PGI, the parent Company's subsidiary, is primarily engaged in the distribution and sale of LPG and industrial gases, mainly oxygen and acetylene. Since these are highly flammable gas products, the obvious principal risk is an operational one and relates to the hazards of handling and storage of these products. The particular risks involved are: (a) potential injury to people; (b) damage to property; (c) damage to environment; (d) or some combination thereof. The business losses arising from a disastrous consequence of any of these hazards are significant and could amount to several times that of the actual damage / losses and can further result in a longer-than- expected business interruption in any of PGI's refilling plants or terminals. Hazards can be due to any, or a combination, of the following: (1) intrinsic property of the product; (2) catastrophic ruptures/leakages; (3) unsafe refilling and receiving activities; (4) failure of safety valves; (5) un- requalified fire-protection equipment or devices; (6) potential sparks from presence of gasoline-fueled vehicles during refilling and receiving activities; and, (7) discharge of LPG to the atmosphere because of leak(s).

Mitigation of the above risks is done through consistent and systematic application of management policies, procedures and practices concerning safety. There are continual tasks on analyzing, evaluating and controlling the different types of risks involved. Having identified and evaluated the risks, decisions are made on how acceptable the risk might be and the need for further actions to be undertaken, either to eliminate the risks or reduce them to a tolerable level. Risk management includes such elements as identification of possible risk reduction measures (which could be preventive or mitigative) and risk acceptability. PGI's risk management and mitigation system covers at least the following areas:

- Continuous identification of hazards and consequence analysis thereof (utilizing the *Structure What If Technique* or 'SWIFT');
- Fire prevention and fire-protection management program;
- Regular emergency response training and drill, and continued evaluation thereof;
- Maintaining operating standards in relation to safety practices and requirements and fire- preventive measures; and
- Training and continuing education of its personnel on safety and risk management

*Major risk factors and their management in Pryce Pharmaceutical Inc.'s Business*

PPhI operates in the distribution and sale of pharmaceutical products, mainly in vitamins and food supplements. Among the major risks involved in the business and in its industry are:

1. Dependence on Toll Manufacturers

PPhI purchases its products from different licensed medicine and pharmaceuticals traders and toll manufacturers. However, there are numerous circumstances beyond PPhI's control that lead to delays in the manufacturing and delivery of orders. This increases the risk of disruptions in the company's supply chain should the toll manufacturer encounter operational issues and backlogged orders. In order to address this, PPhI has developed a robust procurement system ensuring the continuity of supply for extended periods despite delays in manufacturing and delivery. PPhI is also exploring further diversification of its suppliers by acquiring new products from other toll manufacturers, and even importing from other countries.

2. Perishable Nature of Pharmaceutical Products

Most of PPhI's products have shelf lives of two years, and distributors and retailers have requirements when it comes to the remaining shelf life of any orders. For the most part, any inventory with a remaining shelf life a year or less becomes unsellable without heavy promotions or discounts, thereby significantly affecting profitability. PPhI manages this by executing a FIFO system and balancing its procurement with its forecasts based on seasonality and historical performance in order to ensure that the competing risks oversupply and undersupply are addressed. PPhI takes full advantage of the time available for selling its products such that near expiry stocks are minimized and there are enough safety stocks to avoid outages.

3. Commoditized Industry and Low Barrier to Entry

PPhI experiences competition from major national and multinational pharmaceutical firms as well as numerous small and medium sized drug distributors. The availability of medicine traders and toll manufacturers to smaller pharmaceutical firms allow them to compete at a similar level to PPhI and offer similar products. This creates a market with numerous players competing for market share offering homogenous products, creating a very difficult environment. PPI has tried to differentiate itself by leveraging on the popularity of the “Pryce” brand for key markets and committing to increased marketing activities. PPhI has also separated itself from smaller brands by investing in an above-the- line marketing campaign to increase brand awareness.

The discussion on Financial Risk Management is incorporated by way of reference to relevant parts of Notes to the Financial Statements (see Note no. 35), under the heading *Financial Risk Management: Objectives and Policies*.

## Item 2. Properties

### Completed Projects

The projects that the Company has previously reported and have long been completed, are: Wright Park Place Condominium, a 3-building cluster of 63 first class residential condo units in Baguio City; and Villa Josefina Subdivision, a mid-scale residential subdivision in Davao City consisting of 152 residential and 2 commercial lots. It has also completed and sold the Josefina Town Center in Davao City. The company’s other completed projects are enumerated below.

*Cagayan de Oro Gardens*

This is the first memorial park project developed by the Company, located in Lumbia, Cagayan de Oro City, with a wide frontage along the national highway. The project site is blessed with a scenic view of the Lumbia hillsides as well as part of the city and Macajalar Bay in the distance. The Cagayan de Oro River meanders at the bottom of a ravine adjacent to the property. The site has a total gross area of 20.76 hectares, of which total saleable area is estimated at 135,390 sq.m., equivalent to about 55,491 lawn lots, with an average size of 2.44 square meters per plot.

Development works commenced in June 1993 and the project began selling activities in April 1994. The general vicinity of CDO Gardens was relatively sparsely populated in 1995. At present, however, various residential subdivisions, ranging from very upscale to mid-level and to low-cost dwellings have sprouted in the area, making the park very accessible to its immediate target market. Even the largest mall in the city, SM City Mall, is located nearby.

*Puerto Heights Village*

This project was launched in August 1995 as an upscale residential subdivision in Cagayan de Oro City. It is a 14.9 hectare property in scenic Puerto overlooking Macajalar Bay. The site is considered very strategic, being located near the junction of two major national highways – one going to Bukidnon and Davao and the other one passing through Tagoloan, Misamis Oriental where a major international seaport terminal is in operation and the Philippine Veterans Investment Development Corporation (Phividec) Industrial Estate is located.

*Pryce Tower*

The Pryce Tower Building commenced construction in December 1995 and became the first high-rise condominium project in Mindanao. It is a 16-level first class building on a 1,965 sq.m. lot located at the Pryce Business Park in Bajada, Davao City. The building has 89 office suites with areas ranging from 106 to 390 sq.m. and two basement levels for parking. The building was completed in February, 1999.

*Socialized Housing Projects*

The Company has two low-cost housing projects as its contribution to government efforts to address the housing problem in the country. The first project is Mindanao Homes in Pagatpat, Cagayan de Oro City, which has been completed. The other one is St. Joseph Village, which sits on an 11- hectare property in Sirawan, Davao City with 356 House-and-Lot units and 496 Lot units.

*Villa Josefina Resort Village*

This mid-to-upscale residential development is located on a 36.4 hectare property in Dumoy, Davao City. It has a beachfront along the Davao Gulf and a frontage along a national highway where the main entrance is located. The initial 23 hectares of the project comprising Phases I and II provide a total of 570 residential lots with an average size of 300 sq. m. per lot. Phase III, which comprises the beachfront area, measures some 13.4 hectares with a total of 174 saleable lots. Phase IV, with an area of 0.986 hectares, consists of smaller lots totalling 44, some of them containing housing units for the mid-scale market.

*Pryce Business Park, Davao*

The Company has a 1.8-hectare prime property in the highly commercialized area of J.P. Laurel Avenue in Bajada, Davao City, diagonally across Victoria Plaza, a large shopping mall in the city. PC developed this property into a commercial cluster called Pryce Business Park. The development consists of 15 subdivided commercial lots with areas ranging from 600 to 1,965 sq. m. per lot. Construction of this business park was fully completed in 1997.

*Pryce Plaza Hotel, Cagayan de Oro City*

Pryce Plaza closed its operations on December 31, 2016. It was a premier business and convention hotel and was in operation for almost 26 years since it opened in April 1991. The hotel is located atop Carmen hill in Cagayan de Oro City and overlooks the city. Management decided to stop its operations as it has not been providing the desired returns the past years due mainly to the stiff and growing competition, which was compounded by the increasing costs of having to maintain an old hotel.

**Essentially Completed Projects**

*Maria Cristina Gardens*

This is the second memorial park project of the Company, which is named after the most famous waterfalls in Mindanao, the Maria Cristina Falls. This memorial park somewhat takes on the character of the original landscape because it was built basically around the natural topography of the site. It is located in Sta. Filomena, Iligan City on a 27.6 hectare property with a hilly terrain offering a panoramic view of Iligan Bay on one side and the city proper on the other. Its development plan replicates the facilities and amenities of Cagayn de Oro Gardens. Considering that Iligan City has no first class memorial park, demand for private burial plots has been holding steady.

Development works for Phase 1 commenced in Februrary 1996 while development of Phases II and III began In August 1996. As of date, all these phases are all fully or essentially completed, containing an area of 21.6 hectares. An additional 6.0 hectares are for development under Phase IV of the park is still under the planning stage. Selling activities began in October 1996.

*Zamboanga Memorial Gardens*

This was designed in the same tradition as the Company's other memorial park projects in Cagayan de Oro and Iligan. It is PC's most ambitious memorial park project in terms of size, being located on a 49.16-hectare property in Sinunuc, Zamboanga City. The site also offers a panoramic view as it nestles on an elevated terrain overlooking the Zamboanga west coast, which is just a street across the site.

Development of Phase I commenced in July 1997, which was later divided into two phases, Phases I-A and I-B of 9.5 hectares and 9.7 hectares, respectively. These initial phases of the project, aggregate 19.24 hectares, with total saleable area of 103,988 sq.m. and equivalent to 41,595 lawn lots. The development of the second phase began in the early part of 2003. It has a gross area of 29.92 hectares, the saleable portion of which is 154,590 sq.m., equivalent to about 61,836 lots. Only about half of the second phase is essentially completed as of date, in terms of electrical, lighting, pathwalks, roads and landscaping works.

*North Zamboanga Gardens*

This is PC's fourth memorial park project. It sits on a 25.19-hectare property alongside the Dipolog River in Polanco, Zamboanga del Norte, within convenient driving distance from Dipolog City. A waterway passes through the park - a rainwater channel which empties into the Dipolog River – forming ponds and giving the project a unique alluvial character.

The first 10 hectares of the project commenced development in October 1997 and was completed in 1999; subsequently, in 2000, another area of 9.36 hectares was developed, while 4.19 hectares at the back was reserved for future development. Presently, the total saleable area measures about 137,350 sq.m., which is equivalent to 54,943 equivalent lawn lots. In 2008, the Company acquired an additional 1.6-hectare property adjacent to the park, which is reserved for future development.

*Ozamiz Memorial Gardens*

This fifth memorial park project of the Company became operational in late 2001. It is located on a 9.32-hectare property along the national highway connecting the cities of Ozamiz and Tangub within the barrio of Dimaluna, Ozamiz City, and against the backdrop of Mt. Malindang. This project commenced development works in December 1999 and became essentially completed in December 2002. Selling operations for this project began in 2000.

*Mt. Apo Gardens*

Mt. Apo Gardens is the Company's sixth memorial park, named after the tallest mountain in

Mindanao, which is highly visible from the site, is located in what was originally an 18.1 hectare property in Riverside, Calinan, Davao City; this project is essentially completed and has a currently-identified saleable area of 109,430 sq.m., equivalent to 43,772 lawn lots. An area near the entrance gate alongside the main access road has been reserved for future development. Properties adjacent to the park were subsequently acquired (8,539 sq.m. in August 2003 and 8,540 sq.m. in December 2002), with a total area of 17,079 sq.m., increasing the gross area of the project to 19.81 hectares.

The project secured approval from the city government to proceed with development works after a long wait of several years. Mobilization and preparatory works began in September, 2000 and were essentially completed in June 2002.

*Pryce Gardens CDO-Manolo Fortich*

In May 2004, construction of the Company's first so-called "boutique" (or "smaller") memorial park began in Mambatangan at the northeast boundary of Cagayan de Oro with Manolo-Fortich, Bukidnon. The project is divided into three phases and is designed to yield a total saleable area of 96,250 sq.m. roughly equivalent to 39,446 lawn lots from a total land area of 12.14 hectares. The project's first phase is 95% complete with a small amount of remaining works to be finished in its water and electrical systems. The total saleable area under Phases I and II is 68,840 sq.m., which is roughly equivalent to 28,214 lawn lots. As stated above this project was reclassified by management from a boutique to a "Class A" park.

*Pryce Gardens-Malaybalay*

This is the second boutique memorial park project of the Company, construction of which began in March 2005. It is located in Brgy. Laguitas, Malaybalay City, Bukidnon, with a gross area of 4.94 hectares and a total saleable area of 36,846 sq.m., equivalent to 15,101 lawn lots. The project has hilly terrain and was essentially completed on March 31, 2007. The site has a commanding view of the hillsides and rolling terrain of Malaybalay and Valencia. In fact, it is located between Malaybalay and Valencia, enabling the project to tap the market in both locations. This project was likewise upgraded to a "Class A" park.

*Pryce Gardens-Malita*

Pryce Gardens-Malita is a boutique memorial park in the Company's portfolio. Construction also began in March 2005. The project is located in Bgry. Bolita, Malita, Davao Occidental and has total land area of 6.17 hectares, of which only 2.91 hectares is fully developed. The project has a scenic view of the surrounding hillsides. Total saleable area is estimated to be 44,255 sq.m. (Phases I and II) which translates to 18,064 equivalent lawn lots. The project has two phases, Phase I and Phase 2 and they are 100% and 85% accomplished, respectively.

*Pryce Gardens-Bislig*

Also classified as a boutique memorial project of the Company, this is located in Kahayag, Bislig, Surigao del Sur. Construction for this project began on June 14, 2005 and was essentially completed by end of 2006. The land has a gently rolling terrain similar to Pryce Gardens-Malaybalay with a gross area of 5.76 hectares and saleable area of 37,848 sq.m. equivalent to 15,415 lawn lots.

*Pryce Gardens-Alabel*

Another boutique memorial park of the Company is located in Alabel, Sarangani, almost adjacent to the town's public cemetery. The site is also a short travelling distance from General Santos City. Its construction began in February 2007 and was operational by the time it was formally launched in April 2008. The park has a total land area of 4.9 hectares and offers a saleable area of 35,625 sq.m. or 14,549 equivalent lawn lots.

*Pryce Gardens-Pagadian*

In June 2014, the 5-hectare Phase 1 of *Pryce Gardens-Pagadian* project was completed and became operational. Phase 1 has a total saleable area of 36,612 sq.m., roughly equivalent to 14,650 lawn lots. Roads and path walks account for 9,800 sq.m. while the chapel, parking areas and open space consist of 2,052 sq.m. This project occupies an 8.96-hectare land nestled on the hillsides of Bgy. Poloyagan overlooking Iliana Bay, the Pagadian seaport, and parts of the city across the bay. It is in the southern part of the city and can be reached through 7 kilometers of well-paved road.

*Pryce Gardens-Butuan*

This is the latest addition to the Company's memorial parks and is located on a 6.19-hectare property in Brgy. Bit-os, at the southwest portion of the city. The property has a hilly terrain and is elevated, which gives it a commanding view of the Agusan River and a portion of Butuan city. This project was developed to have a total saleable area of 33,120 square meters, roughly equivalent to 13,524 equivalent lawn lots. Roads and path walks will cover 8,611 sq.m. while the chapel, administrative and parking area will consist of 3,212 sq.m. (This park was inaugurated on January 25, 2019.)

**Other Properties**

The following table provides information on the Company's land bank consisting of properties that are 100% owned (unless otherwise stated). The Company's land bank includes some lands still in the name of third parties but already sold to the Company based on documents of conveyance.

| Location | | Total Area (sq.m.) |
|---|---|---:|
| Cagayan de Oro City | | |
| | Bugo | 465,535 |
| | Tin-ao | 190,891 |
| | Del Carmen | 11,937 |
| | Mambatangan | 681,153 |
| Misamis Oriental | | |
| | Sta. Ana | 1,378,993 |
| Malagos, Davao City | | 578,576 |
| Polomolok, South Cotabato | | 67,521 |
| | Total | 3,374,606 |

**Joint Venture**

The Company had been involved in joint venture arrangements covering the development of raw land adjoining the Company's properties such as the Villa Josefina Resort Village project.

Under the terms of the separate agreements, the Company's partners were to contribute their respective properties as equity in the joint venture. In turn, the Company would undertake the development of all access roads, utility systems and open space facilities and the marketing and selling of the lots.

Another joint venture arrangement involved the Pryce Tower in Davao, for which other parties contributed roughly 30-35% of development cost.

**LPG Plants**

By strategically locating its facilities (marine terminals and refilling plants) near major population centers, PGI was able to build an extensive supply distribution infrastructure that successfully supported its efforts in making PryceGas a household name in the local LPG market, particularly in the Vis-Min regions.

In selling PryceGas, PGI divided Vis-Min operations into ten marketing regions namely: Northern Mindanao, Southern Mindanao 1, Southern Mindanao 2, Eastern Mindanao, Western Mindanao 1, Western Mindanao 2, Central Visayas, Western Visayas 1, Western Visayas 2, and Eastern Visayas.

The marketing operations of Northern and Southern Mindanao, together with the Caraga Region (comprising Butuan and Surigao provinces), are currently supported by sea-fed terminals with storage capacities located in Balingasag, Misamis Oriental and Astorga, Davao del Sur, respectively. To serve the market in Western Mindanao, PGI has a marine terminal in Talisayan Zamboanga City. To complement these import terminals, PGI has refilling plants in the following areas: Agusan Del Norte (Butuan and Trento), South Cotabato (Polomok and Gen. Santos City); Aurora, Zamboanga del Sur; Tagum, Davao del Norte; Misamis Oriental (Mohon and Lugait); Davao City (Calinan and Dumoy); Mambatangan-CDO; Don Carlos Bukidnon; Matalam, North Cotabato; Titay Zamboanga Sibugay; Davao City, Davao del Sur. These refilling plants are within convenient distances to large population centers and can serve the remote markets, thus ensuring its customers a ready supply of PryceGas. (*Note: The terms sea-fed terminal or import terminal or marine terminal, as used herein, are synonymous with each other.*)

Applying the same strategy to Visayas, PGI built an import terminal in Sogod, Cebu to serve the growing LPG markets in Cebu and Bohol. To cover the Eastern Visayas markets, an import terminal in was also built in Albuera, Leyte. Two import terminals were each constructed in Ayungon, Negros Oriental and Ajuy, Iloilo, to cover the Central Visayas and Western Visayas Markets, respectively. The company had installed several refilling plants in Pavia, Iloilo; Negros Occidental (Silay and Himamaylan); Canduman, Cebu City, Naga & Balamban in Cebu Province; Sta. Margrita, Samar, Mobo, Masbate, Ubay, Bohol, Bato, Leyte, New Kawayan, Tacloban City, Leyte.

In Luzon, PGI has a 8,500-MT marine-import terminal in San Fabian, Pangasinan to serve the LPG requirements of Luzon and NCR. This is complemented by a host of 38 refilling plants in Luzon and certain parts of NCR, with storage capacities ranging from 25 to 120 MT.

The aggregate LPG storage capacity of PGI, as of March 31, 2020, in terms of its sea-fed or marine terminals and inland refilling plants is 34,082 MT which covers the whole country as shown below.

| Type | Region Location | Number | Capacity (MT) |
|---|---|---|---|
| LPG Marine Terminal | Luzon | 1 | 8,500 |
| | Visayas | 4 | 12,790 |
| | Mindanao | 3 | 9,550 |
| | Sub-totals | 8 | 30,840 |
| | | | |

| | | | |
|---|---|---|---|
| LPG Refilling Plants | Luzon | 39 | 1,911 |
| | Visayas | 14 | 530 |
| | Mindanao | 18 | 801 |
| | Sub-totals | 71 | 3,242 |
| | | Total | 34,082 |

The counts on refilling plants include the marine terminals as these also perform refilling functions.

**Encumbered Assets**

Over the period that the Company was in corporate rehabilitation, it was able to settle its debts with the creditor banks in a gradual manner through the following: a) implementation of the court- approved rehabilitation plan; b) pursuance of effective legal defences against the opposition of two creditor banks, BPI and CBC, to PC's rehabilitation; and c) settlement with certain creditors via sale of an encumbered asset with the consent of the Commercial Court. PC's rehabilitation proceedings would have been consummated much earlier were it not for the opposition of the said two banks which went all the way to the SC with PC eventually winning the final rulings in that court.

Previously encumbered properties under the Mortgage Trust Indenture (MTI), which secured the Company-issued LTCP's in December 1995 (at aggregate amount of Php 300 Million) were released in January 2016, months after PC's rehabilitation proceedings was terminated in July 2015. Earlier in August 2014, a portion of the of the MTI collaterals (Davao commercial lots) was released after the consent / approval of the majority creditors was obtained as a consequence of the settlement of a significant portion of the LTCP loan.

The assets previously mortgaged to CBC (as part of the collateral of the Company's P200 million loan line with said bank) have been released from mortgage. Comprising these assets are the following: 30 office condominium units at the Pryce Tower in Davao City (all of which have been sold); 34 residential lots at Puerto Heights Village in Cagayan de Oro City; 5-hectare lot in Cagayan de Oro Gardens; 11,937-sq.m. undeveloped property in Brgy. Del Carmen, Cagayan de Oro City; 31 residential lots at Villa Josefina Resort Village (Phase III) in Davao City; and 4 lots in Mt. Apo Gardens, Davao City.

Assets which secured a short-term loan with the BPI have also been released from mortgage. The following properties comprise the previously mortgaged assets: 77,761-sq.m. semi-developed property, Iligan Town Center (which had been sold to a mall developer); and 5 subdivision lots in Puerto Heights Village in Cagayan de Oro City. In September 2014, the Iligan property was sold to a mall developer and the sales proceeds were used in the settlement of the aforesaid loan thereby causing said release from mortgage. (Previously mortgaged to BPI too were 5 residential lots at the Villa Josefina Resort Village, Davao City; however, BPI filed extra-judicial foreclosure on these properties and eventually were auctioned off on February 26, 2004. The proceeds of the said auction were applied to the reduction of the Company's obligation with BPI.)

**Item 3. Legal Proceedings**

The Company or Pryce Corporation and its subsidiary, Pryce Gases, Inc., are a party to pending cases and believe they have meritorious causes of action and defenses with respect to all pending litigation and intend to defend which actions vigorously. Moreover, its directors and officers have no knowledge of any other proceedings pending or threatened against the Company and PGI or any facts likely to give rise to any proceedings which might materially affect the position of the Company. Enumerated and discussed below is the status of various pending cases as of **December 31, 2019**. Apart from the cases enumerated below, Pryce Corporation and Pryce Gases, Inc. are likewise involved in other legal cases that occurred under the ordinary course of business or will not materially affect the parent Company's or PGI's operations as whole.

1. **<u>Pryce Corporation vs. Raul P. Solidum, et al.</u>**
Civil Case No. 98-571, Branch 17, RTC of Misamis Oriental

**Nature:** This is an action for "Specific Performance" against the Solidums relative to the 52 hectare lot at Casinglot, Tagoloan, Misamis Oriental. PC originally entered into a Memorandum of Agreement with the Solidums, thru their attorney-in-fact, Atty. Purita Ramos, whereby the Solidums undertook to sell to PC the property, conditioned upon the removal of the squatters and conversion of the property into industrial/commercial use. The Solidums failed to remove all the squatters, was unable to obtain the conversion, and execute the deed of sale, despite PC's advances of about PhP8million. PC caused a lis pendens annotated on the subject title relative to herein Civil Case No. 98-571. In September 2006, the parties executed a compromise Memorandum of Agreement as a way to break the legal stalemate.

**Status:** On October 29, 2019, the Solidums purchased the rights and interests of PC over the Casinglot property. With this development, the parties intend to file the necessary pleadings with the RTC to terminate this case.

2. **<u>Ponce vs. Pryce Corporation, et al.</u>**
Case No. G.R. No. 206863
Supreme Court, Second Division

**Nature:** This is an action for quieting of title filed by Vicente Ponce, whose title overlaps with that of PC over a 4.8 hectare portion of property in Iligan City, over which PC operates and maintains the Maria Cristina Gardens Memorial Park. Ponce obtained his title from Solosa, whose title was derived from an alleged Homestead Patent that was administratively reconstituted. PC meanwhile obtained its title from the Quidlat sisters, whose title was adjudged by a cadastral court. The RTC ruled in favor of Ponce, upholding his title over the contested portion. On appeal, the CA sustained the trial court's ruling. PC filed a Petition for Review on Certiorari with the Supreme Court, to which Ponce filed his Comment.

**Status:** In February 2014, PC filed a motion for leave to file its Reply to the Comment of Ponce. The Supreme Court granted PC's motion. PC is now awaiting the Supreme Court's further action on this case. Meanwhile, Vicente Ponce had passed away and his heirs had filed for substitution as party-litigants in the case, which the Supreme Court granted thru its resolution dated January 10, 2018. On 8 April 2018, the Supreme Court directed the Court of Appeals to elevate the complete records of the case. On 9 October 2019, the Supreme Court noted the transmittal letter of the Court of Appeals elevating to it the CA rollo and original records of the case.

3. **<u>Pryce Corp. vs. Solicitor General, et al</u>.**
Civil Case no. CV-ORD-2015-215
RTC-Cagayan de Oro City, Branch 17

**Nature:** PC is asking the Court to render an interpretation of Section 4 (a) 9 of Republic Act no. 7432 (also known as "Senior Citizens' Act", as amended Republic Act no. 9257 and as further amended by Republic Act No. 9994 to the effect that it does not include interment services as being covered by the 20% discount to be availed of by the deceased senior citizen or his/her heir(s).

**Status:** The Court rendered judgment in favor of Pryce Corporation. The Solicitor General filed a motion for reconsideration which was denied by the Court. The Solicitor General then elevated the matter to the Supreme Court for review.

4. **<u>National Grid Corporation of the Philippines vs. Pryce Corporation</u>**
Special civil action no. 769
Regional Trial Court, Zamboanga City, Branch 14

**Nature**: This is an EMINENT DOMAIN case filed by NGCP pertaining to a portion of the property of the PRYCE CORPORATION (PC) located in Zamboanga City known as lot no. 3353 covered by Transfer Certificate of Title no. T-134,567 of the Registry of Deeds of Zamboanga City and developed by the herein defendant corporation into a Memorial Park. The aforementioned case has been docketed as Civil Case no. 769 pending before the Branch 14, Regional Trial Court, Zamboanga City. After postponements made by both parties due to their inability to attend for reasonable causes, the Court set the pre-trial date to January 18, 2018.

**Status**: During the hearing for pre-trial on 18 January 2018, NGCP's counsel appeared and moved for more time to take up with NGCP's management the proposal of PC for just compensation and to seek approval of any counter-proposal. The Court granted the motion and gave NGCP's counsel fifteen (15) days from 18 January 2018 to file said pleading. However, it appears that NGCP's counsel failed to comply. Then, on 10 July 2018, PC's counsel received an "Entry of Appearance" from a law firm indicating that NGCP had changed its counsel of record.

**Cases involving directors and officers of Pryce Corporation**:

The disclosure hereunder notwithstanding, it must be emphasized that these cases were filed due to alleged malfeasance by the said directors/officers in their capacity as such and allegedly in connection with the performance of their official functions.

**<u>Pilipinas Shell Petroleum Corporation versus Pryce Gases, Inc. (PGI), et al.</u>**
I.S. No. 2005-56 for Trademark Infringement, Unfair
Competition, Violation of BP 33, Theft and Estafa.
Department of Justice, Manila.

**Nature:** Again, the directors and officers of Pryce Gases, Inc. were implicated in this case because of the alleged existence of conspiracy. Neither the directors nor the officers issued any directive whatsoever, much less, passive acquiescence to commit fraud or crime for that matter. There is no basis, therefore, for the allegation of conspiracy.

**Status:** A Resolution was released by the DOJ dismissing the case. Pilipinas Shell filed a Motion for Reconsideration (MR). Accordingly, PGI filed its Comment and/or Opposition thereto. After Shell filed its Reply to the Comment and/or Opposition, PGI filed a Rejoinder thereto. PGI is still awaiting the resolution of Shell's Motion for Reconsideration.

**<u>LPGIA versus the Directors and Officers of Pryce Gases, Inc. and/or Oro Oxygen Corporation (re-check)</u>**
Provincial Prosecution Office of Rizal
NPS Docket No. XV-18M-INV-15H-03386

For: Trademark Infringement, and Violation of BP 33 and RA 623
Department of Justice
OSEC-PR-RZL-2-051216-001

City Prosecution Office of Taguig
Trademark Infringement, and Violation of BP 33 and RA 623

**Nature:** The Complaints were filed indiscriminately against all the directors and officers of PGI and OOC because of presumed consent and acquiescence to commit the offenses. There is no allegation in the Complaints however that alleges with particularity the identity of offenders or how the offender is connected with the companies, much less the actual personal participation its board of directors and officers in the alleged commission of the offenses. Complainant further bases its

Complaint, among others, on noticeably intercalated invoices, for which countercharges of falsification have been filed.

**Status**: The Department of Justice partially granted LPGIA's Petition for Review and indicted additional respondents for violation of BP33. PGI officers and LPGIA filed their respective motions for partial reconsideration. These are pending before the Department of Justice.

**People of the Philippines vs. Rudy T. Abuyog, et al.**
For: Violation of Sec. 2(a) in rel. to Sec. 3 (c) and Sec. 4, B. P. 33 as amended by PD 1865
Criminal Case No. 16-0186, Criminal Case No. 16-0187, Criminal Case No. 16-0188
Municipal Trial Court of Taytay

**Nature**: This case has its inception from NPS Docket No. XV-18M-INV-15H-03387 which culminated in the filing of criminal charges against the corporate officers.

**Status**: The Court approved the inclusion of additional officers for indictment. On 8 October 2018, all the other additional accused were arraigned and have posted bail. The initial presentation of prosecution evidence is set on 4 March 2019. After the presentation of prosecution evidence, the Accused filed a Demurrer to Evidence with Motion to Dismiss. The Demurrer to Evidence is still pending.

**LPGIA versus the Directors and Officers of Pryce Gases, Inc.**
**Petron Corporation versus the Directors and Officers of Pryce Gases, Inc.**
NPS Docket Nos. XV-03-INV-17-H-3149 to 3150, XV-03-INV-17C-0909 to 0912
Trademark Infringement, Unfair Competition, and Violation of BP 33 and RA 623
Office of the City Prosecutor of Cavite City

**Nature:** Like in the foregoing Taytay and Taguig cases, the Complaints were filed indiscriminately against all the directors and officers of PGI because of presumed consent and acquiescence to commit the offenses, without allegation in the Complaints that particularly identifies the offenders or how they are connected with the company. Much less is there any showing of the actual personal participation its board of directors and officers in the alleged commission of the offenses.

**Status:** The cases were DISMISSED by the Cavite Prosecutor's Office. LPGIA filed a Petition for Review with the Department of Justice ("DOJ"). The Accused filed a Comment. The Petition is still pending with the DOJ.

**LPGIA versus the Directors and Officers of Pryce Gases, Inc.**
NPS Docket No. II-07-INV-171-05786
Trademark Infringement and Violation of B.P. 33
Office of the Provincial Prosecutor of Bayombong, Nueva Vizcaya
Department of Justice

**Nature:** Similarly with the foregoing cases, complaints were filed indiscriminately against all the directors and officers of PGI because of presumed consent and acquiesce to commit the offenses.

**Status:** The cases were dismissed as against all directors and officers but for Mr. Rafael Escaño, as president of Pryce Gases, Inc., the charge being based solely on his position as such without showing any actual consent to the commission of the offense, much less any participation therein. On that basis, Mr. Rafael Escaño filed a Petition for Review with the Department of Justice where the case is currently pending.

**Eastern Petroleum Corp. versus Efren A. Palma**
NPS Docket No. XV-03-INV-16H-2849
Provincial Prosecution Office of Cavite
Violation of BP 33 and RA 8293

**Nature:** Mr. Palma only became aware of the above-captioned Complaint when he received the Resolution of the prosecutor in January of 2017. It is apparent from the records of the case that notices and other papers were delivered to the **wrong address** except, strangely, for the Resolution itself, which was delivered to the correct address**.** As such, Mr. Palma was not able to deny any wrongdoing by the company as alleged in the complaint and present his defenses, including especially that he is **not the President of Pryce Gases, Inc.,** nor is he managing the erring refilling plant or personally involved in the day-to-day operations of the company. It would have been easily verifiable from the public documents, which were attached to the complaint itself, that Mr. Palma's position in Pryce Gases, Inc. is as Chief Financial Officer.

**Status:** On motion for reconsideration, the resolution was reversed and charges against Mr. Palma have been dismissed. Countercharges for perjury have likewise already been filed against the complainant.

**Republic Gas Corporation, rep. by: Wilbert R. Sanchez vs. Rafael P. Escano, Salvador P. Escano and Efren A. Palma**
NPS Docket No. III-08-INQ-19-F-00208
Office of the City Prosecutor, Meycauayan, Bulacan
For: Trademark Infringement

**Nature**: Prior to this case, Republic Gas Corporation (REGASCO) secured a search warrant from the RTC Pasig City in another criminal case against Pryce Gas Meycauayan refilling plant alleging that Pryce Gases is committing trademark infringement. By virtue of the search warrant, REGASCO together with the CIDG, raided the Pryce Gas Meycauayan refilling plant. During the raid, LPG cylinders ostensibly bearing the trademark of REGASCO as inscribed in the handles of the LPG cylinders, were confiscated inside the refilling plant. The plant OIC/supervisor were arrested and a criminal case for Trademark Infringement were filed against them (docketed as P. v. Barug et al, Crim. Case No., 3215-M-2019). As an offshoot of that case, similar complaints for Trademark Infringement were filed against Salvador P. Escaño et al. in their official capacities as corporate officers of Pryce Gases Inc. even though no direct participation by the said officers could be inferred.

**Status**: The Office of the Prosecutor-Meycauayan directed Messrs. Salvador P. Escano et al. to submit their Counter Affidavits in the Complaint for Trademark Infringement filed by REGASCO. The Counter Affidavit was filed on December 19, 2019. The case is now submitted for resolution.

**Republic Gas Corporation, rep. by: Efren J. Almojuela vs. Rafael P. Escano, Salvador P. Escano, and Efren A. Palma**
NPS Docket No. XV-18m-INQ-19F-04363
Provincial Prosecution Office of Rizal, Taytay, Rizal;
For: Trademark Infringement,

**Nature**: Prior to this case, Republic Gas Corporation (REGASCO) secured a search warrant from the RTC Pasig City against Pryce Gas/Oro Oxygen Taytay refilling plant alleging that Pryce Gases is committing trademark infringement. By virtue of the search warrant, REGASCO together with the CIDG, raided the Pryce Gas/Oro Oxygen Taytay refilling plant. During the raid, LPG cylinders ostensibly bearing the trademark of REGASCO as inscribed in the handles of the LPG cylinders, were confiscated inside the refilling plant. The plant OIC/supervisor were arrested and a criminal case for Trademark Infringement (docketed as People vs. Rabago et al, Criminal Case No. 19-932) was filed against him. As an offshoot of that case, similar complaints for Trademark Infringement were filed against Salvador P. Escaño et al. in their official capacities as corporate officers of Pryce Gases Inc. before the Office of the City Prosecutor of Taytay, Rizal, even though their direct participation could not be inferred.

**Status**: The OCP Taytay dismissed the charges against Salvador P. Escaño et al. The case for Trademark Infringement was filed before the RTC Binangonan because there is no RTC at Taytay City. The Motion for Preliminary Investigation for RPE, SPE and EAP was denied. Warrant of arrest was issued. Bail was posted. We will file a Motion for Reconsideration to the Order denying the Motion for Preliminary Investigation upon receipt of the Order. The Motion to Quash Search Warrant is still pending.

**People of the Philippines vs. Mr. Rudy T. Abuyog, Salvador Escano, et. al**
Municipal Trial Court of Taytay
For: Violation of B.P. 33, Municipal Trial Court of Taytay

**Nature**: The LPG Industry Association (LPGIA) secured a search warrant from the RTC Pasig City against Pryce Gas/Oro Oxygen Taytay refilling plant alleging that Pryce Gases is committing trademark infringement. By virtue of the search warrant, LPGIA together with the NBI, raided the Oro Oxygen Taytay refilling plant. During the raid, LPG cylinders allegedly bearing the trademark of LPGIA-member companies were confiscated inside the Taytay refilling plant. A complaint for Trademark Infringement, and violation of BP. Blg. 33, and RA 5700, were filed against Mr. Rudy Abuyog (president) and other corporate officers of Oro Oxygen.
The charges for Trademark Infringement and violation of RA 5700 were dismissed. An Information for violation of BP. 33 was filed against Mr. Rudy Abuyog, SPE and other corporate officers of Oro Oxygen. The criminal case was filed with the MTC Taytay.
**Status**: After the presentation of the prosecution's evidence, the Accused filed a Demurrer to Evidence with Motion to Dismiss. The Demurrer to Evidence is still pending.

**LPG Industry Association vs. Mr. Raul R. Villanueva. et. al.**
OCP Case no. XV-16-INV-15H-00628
Office of the City Prosecutor of Taguig City
For: Trademark Infringement, Violation of B.P. 33

**Nature**: The LPG Industry Association (LPGIA) secured a search warrant from the RTC Pasig City against Pryce Gas Taguig refilling plant alleging that Pryce Gases is committing trademark infringement. By virtue of the search warrant, LPGIA together with the NBI, raided the Taguig refilling plant. During the raid, LPG cylinders bearing the trademark of LPGIA-member companies were confiscated inside the Taguig refilling plant. A complaint for Trademark Infringement, and violation of BP. Blg. 33, and RA 5700, were filed against Mr. Rudy Abuyog (president) and other corporate officers of Oro Oxygen.
**Status**: The OCP Taguig DISMISSED all charges against the respondents. LPGIA filed its Motion for Reconsideration. The Respondents filed their Comment/Opposition to LPGIA's Motion for Reconsideration. LPGIA's Motion for Reconsideration is still pending.

**LPG Industry Association vs. Mr. Raul R. Villanueva. et. al**
OSEC-PR-RZL-2-051216-001
Office of the City Prosecutor of Taytay) Department of Justice
For: Trademark Infringement, Violation of B.P. 33

**Nature**: The LPG Industry Association (LPGIA) secured a search warrant from the RTC Pasig City against Pryce Gas/Oro Oxygen Taytay refilling plant alleging that Pryce Gases is committing trademark infringement. By virtue of the search warrant, LPGIA together with the NBI, raided the Oro Oxygen Taytay refilling plant. During the raid, LPG cylinders allegedly bearing the trademark of LPGIA-member companies were confiscated inside the Taytay refilling plant. A complaint for Trademark Infringement, and violation of BP. Blg. 33, and RA 5700, were filed against Mr. Rudy Abuyog (president) and other corporate officers of Oro Oxygen.
The OCP Taguig resolved to dismiss all charges against SPE and other officers of Oro Oxygen but recommended the filing of an Information for violation of B.P. 33 as against Mr. Rudy Abuyog, in his capacity as the president of Oro Oxygen. The case was filed with the MTC Taytay.

LPGIA filed a Petition for Review with the DOJ questioning the OCP Taytay's dismissal of the charges against Salvador Escaño et al. The DOJ reversed the OCP Taytay and recommended the filing of B.P. 33 charges against Salvador Escaño et al. An Amended Information was filed with the MTC Taytay thereby impleading Messrs. SalvadorEscaño et al., as additional accused.

The Respondents filed a Motion for Reconsideration questioning the DOJ's Resolution.

**Status**: The DOJ partially granted LPGIA's Petition for Review and indicted additional respondents for violation of BP 33. The Respondents filed a Motion for Partial Reconsideration. In turn, LPGIA also filed its Motion for Partial Reconsideration, Respondents filed their Comment/Opposition thereto. The incidents are still pending with the DOJ.

**Item 4. Submission of Matters to a Vote by Security Holders - None.**

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Company's shares are listed in the Philippine Stock Exchange (PSE), the table below shows the quarterly high and low prices of PC's (or 'PPC') shares traded for the year 2019.

| Year | High | Low |
|---|---|---|
| 2019 | | |
| First Quarter | 6.13 | 5.75 |
| Second Quarter | 5.80 | 4.62 |
| Third Quarter | 7.38 | 4.80 |
| Fourth Quarter | 5.56 | 4.88 |

Trading of PC's shares was suspended on two occasions, both of which pertain to the Company's corporate rehabilitation. The first was shortly after the Company filed its petition for corporate rehabilitation with the Commercial Court on July 9, 2004. This suspension was subsequently lifted on January 26, 2005 after the Commercial Court approved the company's corporate rehabilitation plan on January 17, 2005. The second suspension came on June 5, 2006 as a result of the ruling of the CA on the petitions for review (of PC's rehabilitation plan approved by the Commercial Court) filed separately by creditor banks CBC and BPI before different divisions of that appellate court. These cases reached the SC and were resolved in favor of PC, which are discussed under the heading *Corporate Rehabilitation* in Item 1 of Part 1 above, of this report. On March 16, 2015, following the SC's favorable decision, trading suspension of PPC shares was lifted by the PSE, resulting in the active trading of the shares.

As of December 26, 2019 (the last trading date in that year), the market price of the Company's shares closed at P4.94 per share.

***Public Ownership of PC shares as of December 31, 2019***

| | % to Total Outstanding Shares | Number of Shares |
|---|---|---|
| Total Outstanding & Issued Shares | 100% | 2,024,500,000 |
| Less: Treasury Common Shares | | 36,598,731 |
| Number of Outstanding Common Shares | | 1,987,901,269 |
| Less: | | |
| Directors | 3.04% | 60,411,516 |
| Senior Officers | 0.00% | 26,449 |
| Substantial Stockholders | 14.78% | 293,822,512 |
| Affiliates | 8.37% | 166,350,952 |
| Government | 3.61% | 71,722,500 |
| Sub-total | 29.80% | 592,333,929 |
| Shares owned by the public | 70.20% | 1,395,567,340 |

On Dec 13, 2017, the SEC approved the Company's request for increase in authorized capital stock from Two Billion Pesos (Php 2,000,000,000.00) divided into two billion (2,000,000,000) shares with par value of one peso (Php 1.00) per share to Two Billion Ninety-Eight Million Pesos (Php 2,098,000,000.00) divided into two billion ninety-eight million (2,098,000,000) shares with par value of Php 1.00 per share.

This action also allowed for the subscription by an affiliate of the Company (Josefina Multi-Ventures Corporation) to 24,500,000 shares at the subscription price of Php 5.00 per share under the placing and subscription transaction disclosed to the Philippine Stock Exchange on December 7, 2016, and, otherwise, to allow the company to expeditiously raise funds via stock subscriptions.

***Holders***

As of March 31, 2020, the company has 359 stockholders; 96.23% of the outstanding shares as of date hereof are registered in the name of persons who are citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of the capital of which is owned by Philippine citizens.

*Top 20 Shareholders as of March 31, 2020*

| Rank | Shareholder's name | No. of Shares | Percent to total outstanding shares |
|---|---|---|---|
| 1 | Guild Securities, Inc. | 1,017,140,468 | 51.144 |
| 2 | PCD Nominee Corporation | 562,951,398 | 28.306 |
| 3 | Hinundayan Holdings Corp. | 160,708,000 | 8.081 |
| 4 | PCD Nominee Corp. (Non Filipino) | 74,765,052 | 3.759 |
| 5 | Pryce Development Corporation | 61,800,000 | 3.107 |
| 6 | Salvador P. Escano | 33,492,660 | 1.684 |
| 7 | Sol F. Escano | 27,909,000 | 1.403 |
| 8 | Josefina Multi Ventures Corporation | 24,500,000 | 1.232 |
| 9 | CBC T/A #501-0091 | 4,528,720 | 0.228 |
| 10 | JGF Holdings, Inc. | 3,221,427 | 0.162 |
| 11 | Notre Dame of Greater Manila | 2,300,000 | 0.116 |
| 12 | Pryce Plans, Inc. | 1,830,000 | 0.092 |
| 13 | Salvador P. Escano ITF Pryce Development Corp. | 1,684,450 | 0.085 |
| 14 | Pryce Securities, Inc. | 1,008,000 | 0.051 |
| 15 | Jack &/or Frank Gaisano &/or Edward &/or Margaret Gaisano | 575,000 | 0.029 |
| 16 | Edna A. Torralba | 490,000 | 0.025 |
| 17 | CBC T/A #501-0091 FAO: PPI | 450,000 | 0.023 |
| 18 | Fernando L. Trinidad ITF Pryce Development Corp. | 417,000 | 0.021 |
| 19 | Luis C. Ng | 322,000 | 0.016 |
| 20 | Michael Angelo P. Lim &/or Bienvenido U. Lim | 310,000 | 0.016 |

* Salvador P. Escano and Sol F. Escano are spouses

***Dividend History***

In 1994, the Company declared and paid cash dividends of P0.02 per share. In 1995, the Company declared cash dividends amounting to P0.04 per share to stockholders on record as of January 25, 1995 and P0.03 per share to stockholders on record as of September 10, 1995. These cash dividends were paid on February 8 and September 30, 1995, respectively.

In 1997 the Company declared a 15% stock dividend to stockholders on record as of April 10, 1997; these dividends were paid on April 16, 1997.

On November 11, 2016, PC's Board of Directors approved the adoption of a dividend policy wherein 50% of the prior fiscal year's consolidated net income after tax will be distributed in cash to the shareholders as dividends. Dividend declaration and payout is however subject to the requirements of existing laws and rules and regulations and may be restricted by circumstances such as, but not limited to the need for substantial capital outlays for expansion programs or working capital, its earnings, cashflow, financial condition, capital investment requirements and other factors. The Board may, at any time, revise this dividend policy depending on the results of operations and future projects and plans of the company.

The Company has declared cash dividends on the following dates: December 22, 2017 (which it had not been able to do in 20 years); June 7, 2018; December 14, 2018; May 17, 2019; and December 6, 2019. The latest cash dividend declaration was May 18, 2020. All of these cash dividends were sourced from unrestricted retained earnings of the company and were each paid at the rate of Php 0.12 per common share.

***Buy-back Program***

On November 16, 2018, the Board of Directors of the Company approved the buyback of its common shares under the following terms:

- The buy-back program shall be for a term of 24 months commencing on November 20, 2018 up to November 19, 2020.
- The Company shall be authorized to repurchase up to Php 500 million worth of common shares.
- The buy-back program shall be executed in the open market through the trading facility of the Philippine Stock Exchange.
- Repurchased shares shall be booked as treasury shares.
- The buy-back program shall be implemented in an orderly manner and should not adversely affect the Company's and its subsidiaries' prospective and existing projects.

## Item 6. Management's Discussion and Analysis or Plan of Operation

### Results of Operations

***2019 Compared to 2018***

Pryce Corporation and its subsidiaries posted a consolidated net income of P1.519 billion for the year 2019, which is 8.26% higher than the previous year's P1.403 billion. The Php 1.519-billion net income is within range of the company's target.

Revenue contribution by product line is as follows: Liquefied petroleum gas (LPG as fuel) and related LPG products – P10 billion (94.06% of total); Industrial gases – P452.30 million (4.25%); Real estate sales – P128.1 million (1.21%); and Pharmaceutical products – P51.0 million (0.48%).

LPG under the PryceGas brand and industrial gases are product lines of the subsidiary, Pryce Gases, Inc. (PGI). Real estate sales are under the holding company Pryce Corporation while vitamins and supplements are the products of Pryce Pharmaceuticals, Inc. (PPhI). Oro Oxygen Corporation (OOC), a subsidiary of PGI, is engaged in the marketing and distribution of LPG (also under PryceGas brand) and industrial gases in Luzon. PGI and PPhI are subsidiaries of Pryce Corporation.

**Revenue and Volume Growth**

The Company's 2019 topline of Php 10.630 billion is a 3.48% increase over last year's Php 10.273 billion. Liquefied petroleum gas (LPG) is the group's principal product, along with its cylinders & accessories and LPG gensets. It accounted for 94% of total revenues, whereas the remaining revenues were accounted for by sales of industrial gases, real estate, and pharmaceutical products (as discussed above). The modest revenue growth is largely explained by the lower average international LPG contract price (CP) of US$439.5/MT during the year.

LPG sales volume grew 8.95% to 219,884 metric tons (MT) from year-ago volume of 201,826 MT. The company's Luzon operations achieved a 9.42% growth in sales volume, a little higher than the 8.35% growth in the combined sales performance of the company's operations in the Visayas and Mindanao areas.

Industrial gases registered a 7.12% increase in revenues to P452.30 million in 2019 from P422.25 million in 2018 and a 10.85% increase in volume of cylinder refills.

Revenue from real estate, however, dropped to P128.14 million in 2019 from P227 million in 2018 since the latter figure included sale of office condominium units which was absent in 2019. Pharmaceuticals' revenues achieved an increase of 15% to P51.02 million in 2019.

**Price Movement and Market Demand**

The international price of LPG, referred to as the Contract Price or CP, had a downtrend in 2019 compared to 2018. Average CP of US$540.04 per MT in 2018 slipped to US$439.54 per MT in 2019. The softening of world prices translated into lower price of LPG to consumers and industrial users. Department of Energy's (DOE) for 2019 data show that the combined demand for LPG of Luzon and NCR comprise about 78% of the country's total demand; the balance of 22% is accounted for by the combined demand of the Visayas and Mindanao areas.

DOE's 2018 demand data for LPG was 1,797,000 metric tons. Latest data from the DOE shows that in 2019, the country's market demand is 1,823,000 metric tons. This growth in demand can be largely explained by lower local price of LPG and strong household incomes amid a strong economy in 2019.

**Competition and Market Share**

Latest 2019 statistics from the Department of Energy showed PGI as a major player to be reckoned with in the Philippine LPG industry. PGI has a 10% market share in Luzon, 20.4% in Visayas and 24.1% in Mindanao. If the markets of Visayas and Mindanao are to be combined, PGI comes out as the 2nd major player after Petron (Gasul). Overall, PGI has a market share of 11% of the total Philippine market.

It must be noted that Luzon (NCR included) is a highly competitive market with five (5) marine terminal operators (including PGI) doing business alongside more than a hundred independent small to medium-size LPG refillers that sell branded or generic LPG sourced from said terminal operators.

Over recent years, PGI has endeavored to continually increase its market share by building more marine terminals, refilling plants, sales centers, and implementing strategic initiatives designed to widen the scope of its market and bring its LPG products closer to the consumers.

**Profitability**

The company has managed to end 2019 with an 8.26% increase in net income to P1.519 billion from P1.403 billion in 2018. Operating income grew by 11.73% from P1.617 billion in 2018 to P1.807 billion in 2019. Other income and charges amounting to P149.84 million buoyed income from operations, resulting in an income before tax of P1.957 billion which is 13.86% higher than P1.719 billion achieved in 2018.

The earnings per share based on 2019 comprehensive income of P0.6919 per share is an 8.8% improvement over the P0.6363 per share recorded in 2018.

**Liquidity**

Total liquid assets as of yearend 2019 is P2.16 billion, consisting of P1.11 billion in cash and P1.04 billion in financial assets at fair value (equity securities), represents a 30.4% growth over the P1.65 billion balance in 2018. Current ratios exhibited a slight decrease from 1.65x in 2018 to 1.54x in 2019.

**Balance Sheet Changes**

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

| Account Name | % Increase or (Decrease) | Reason for Change |
|---|---|---|
| Cash | 31.30% | Increase in income and availment of short-term loans |
| Financial assets at fair value | 29.46% | Increase in market value and new acquisition of marketable securities |
| Trade and other receivables | 12.85% | Increase in revenues and credit sales |
| Inventories | 15.14% | Increase in sales volume and increase in LPG importation |
| Prepayments and other current assets | 81.64% | Increase in rental and other deposits and advance payment of local taxes |
| Advances to related parties | (61.70%) | Collections from related parties |
| Property plant and equipment | 10.48% | Due to additional CAPEX |
| Deferred Tax assets | 100.77% | Additional recognition of deferred tax assets |
| Trade and other payables | 18.78% | Due to increase in purchases and various accruals |
| Income Tax payable | 58.01% | Increase in net income |
| Customers' deposits | (4.07%) | Due to increase in collection of deposits for real estate products |
| Short-term debts | 45.91% | Additional availment of short term loan |
| Retained earnings | 26.60% | Due to net income of 2019 |
| Other comprehensive income | (5.08%) | Recognition of appraisal increment |
| Treasury stocks | 2957.86% | Due to buy back of parent company's shares |
| Non-controlling interest | 14.59% | Due to increase in net income |

**Numerical Performance Indicators**

The measures of revenue growth and sales volume performance are presented below.

| REVENUE GROWTH | | | |
|---|---|---|---|
| Pryce Corporation & Subsidiaries | | | |
| | 2019 | 2018 | Percent Growth/ (Decline) |
| REVENUE | Php 10,630,299,264 | Php 10,272,904,539 | 3.48% |

| VOLUME GROWTH | | | |
|---|---|---|---|
| Principal Product – Liquefied Petroleum Gas | | | |
| | 2019 | 2018 | Percent Growth/ (Decline) |
| LPG (in kgs) | 219,883,572 | 201,825,770 | 8.95% |

The measures of profitability are shown below.

| PROFITABILITY | | | |
|---|---|---|---|
| Pryce Corporation & Subsidiaries | | | |
| | 2019 | 2018 | Percent Growth/ (Decline) |
| Return on Assets (%) | 16.21% | 16.30% | -0.52% |
| Return on Equity (%) | 24.24% | 23.42% | 3.53% |
| Net profit margin (%) | 18.41% | 16.73% | 10.03% |

The liquidity and solvency measurements are shown below:

| LIQUIDITY | | |
|---|---|---|
| Pryce Corporation & Subsidiaries | | |
| | 2019 | 2018 |
| Current ratio | 1.54 | 1.65 |
| Debt to equity ratio | 0.46 | 0.41 |

## Plans and Prospects

The Company's memorial park business did better in 2019 by posting Php 128.1 million in revenues compared to 2018's Php 117.0 million (i.e., excluding the sale of the office condo units in 2018). This is due to aggressive sales efforts and the contribution of the latest memorial park in Butuan that was launched in January 2019. Management believes that the memorial park sales will do better in 2020 notwithstanding the coronavirus pandemic.

In 2019, PGI completed the construction of 13 new refilling plants nationwide: 5 in Luzon, 4 in Visayas and 4 in Mindanao. The storage capacities of certain marine-import terminals in Ayungon, Ajuy, and Talisayan were each increased by 2,000 metric tons. For the year 2020, there will be further expansions such as a new marine-import terminal in Lugait, Misamis Oriental and three additional refilling plants in the Visayas and Mindanao areas. The installation of more sales centers will continue in 2020. The objective, of course, of these expansions is to widen the scope and reach of PGI's LPG business thereby making its LPG products more accessible to the consumers.

As of this writing, the government-imposed Enhanced Community Quarantine (ECQ) is now more than 2 months old. Management observes that PGI's sales volume of LPG (cooking gas) has not been adversely affected by the ECQ. In fact, since the ECQ's implementation, sales volume has increased. This phenomenon may be explained by the fact that consumers were forced to stay indoors and cook their food at home as opposed to the pre-ECQ inclination of many to dine out or eat at hotels, malls and restaurants, which were closed during the ECQ.

In recent years, the Company has made five (5) declarations of cash dividends since December 2017. The latest one was declared in May 18, 2020. Prospectively, the Company intends to regularly declare cash dividends on a semestral basis.

***2018 Compared to 2017***

Consolidated growth in the group's revenue contributed to the 12% rise in the net income of the Company for the year ended December 31, 2018. It posted a consolidated net income of Php 1.40 Billion in 2018 compared to the Php 1.25 Billion of 2017.

Ninety-three percent (93%) of the group's consolidated revenues were from the sale of Liquefied Petroleum Gas (LPG) amounting to Php 9.58 Billion, four percent (4%) from the sale of industrial gases amounting to Php 422.25 Million, two percent (2%) from real estate sales amounting to Php 227 Million, and the remaining one percent (1%) from the sale of pharmaceutical products amounting to Php 44.37 Million.

LPG under the PryceGas brand and industrial gases are product lines of PGI (Pryce Gases, Inc.), real estate sales are under the holding company Pryce Corporation, while pharmaceutical products (vitamins and supplements) are the products of Pryce Pharmaceuticals, Inc. (PPhI). Oro Oxygen Corporation (OOC), a subsidiary of PGI, is engaged in the marketing and distribution of LPG and gases in Luzon. PGI and PPhI are direct subsidiaries of Pryce Corporation.

**Revenue and Volume Growth**

LPG sales registered an 11% revenue growth, from Php 8.66 Billion in 2017 to Php 9.58 Billion in 2018. All retail sales volumes in the Luzon, Visayas and Mindanao regions experienced increases of 4%, 3% and 4% respectively. Overall, however, there was a 4% decrease in total LPG content sales volume (201,826 metric tons in 2018 from 210,166 metric tons in 2017) because of lower bulk sales.

Sale of industrial gases posted an 8% increase in revenue of Php 422.25 Million compared to last year's Php 391.5 Million and 12% increase in sales volume of 1,055,849 cylinders in 2018 from 2017's 943,093 cylinders. Sale of medical and industrial oxygen accounted for 72% of industrial gases revenue, the balance consisting of revenues from acetylene and other gases.

Revenues from sale of real estate grew by 63%, from Php 139.41 Million in 2017 to Php 227 Million in 2018. Sale of pharmaceutical products likewise registered a positive growth of 14%, from Php 38.98 Million in 2017 to Php 44.37 Million in 2018.

## Price Movement and Market Demand

LPG's contract price ("CP") opened 2018 at a downtrend in the first quarter to as low as US$ 469.50/MT in March. CP increased steadily starting April 2018 until October 2018, when it hit as high as US$ 655.00/MT, until it went down again to close the year at US$ 424/MT. The average CP was US$ 48.62/MT higher in 2018 compared to 2017.

Notwithstanding the increasing prices of LPG, its market demand grew by 10.51% in 2018 from 1.626 million metric tons in 2017 to 1.797 million metric tons in 2018, according to the Department of Energy.

Industrial gases fared well in 2018 posting a 12% sales volume growth (1,055,849 cylinders in 2018 from 943,093 cylinders in 2017). Average price of medical and industrial oxygen dipped by 5% while acetylene and other gases increased by 5% and 17%, respectively.

## Competition and Market Share

The latest statistics provided by the Department of Energy show that PGI remains to be a major industry player in the Philippine LPG market, with 26% market share in North Luzon, 21.75% in Visayas and 25.25% in Mindanao.

In 2018, PGI completed the construction of 12 new refilling plants nationwide, adding a total of 577 metric tons to its total storage capacity, thereby bringing its products closer to the market. There are expansions in PGI's import terminals and refilling plants in certain regions that are ongoing to ensure wider reach of the market. PGI intends to continue such expansions, which has started around three years back, so as to further increase storage capacities in response to growing market demand and improve market share.

## Profitability

Consolidated gross profit increased to Php 2.50 Billion in 2018 from the Php 2.22 Billion of 2017, or about 12.5%. Operating expenses amounted to Php 878.15 Million, thereby resulting to a net income from operations of Php 1.62 Billion.

Other income and expenses, composed mainly of finance costs, dividend income and realized gains from sale of assets, amounted to Php 101.36 Million, resulting in a Net Income before Income Tax of Php 1.72 Billion. The company recognized a provision for income taxes at Php 315.87 Million, which resulted in a net income of Php 1.40 Billion, a 12% improvement from last year's Php 1.25 Billion. This net income translates to Php 0.636 earnings per share.

## Liquidity

The total liquid assets as of December 31, 2018 amounted to Php 1.65 Billion, representing a 7.48% growth from last year's Php 1.54 Billion. Current ratio decreased to 1.66 in 2018 from 2.30 in 2017.

## Balance Sheet Changes

Compared to the December 31, 2017 audited financial statements, the significant movements in balance sheet accounts are as shown below.

| Account Name | % Increase or (Decrease) | Reason for Change |
|---|---|---|
| Financial assets at fair value | 10.28% | Due to additional acquisition of marketable securities |
| Trade and other receivables | 8.04% | Due to increase in revenue |
| Inventories | 36.12% | Due to increase in sales volume and increase in LPG importation |
| Prepayments and other current assets | 9.93% | Due to accrual and prepayments of taxes |
| Property Plant and equipment | 22.33% | Due to additional CAPEX |
| Deferred tax assets | (11.21%) | Due to adjustment of provision for deferred tax |
| Goodwill | 10.58% | Acquisition by parent company of the shares of the minority interest in subsidiary |
| Trade and other payables | 39.91% | Due to increase in purchases and various accruals |
| Income Tax payable | 27.29% | Increase in net income |
| Customer's deposit | (21.97%) | Due to recognition of deposits to revenue |
| Short-term debts | 158.59% | Due to additional availment of short term loan |
| Retirement benefit obligations | (11.21%) | Due to payment of benefit obligation to the retirement fund |
| Retained earnings | 54.81% | Due to net income of 2018 |
| Non-controlling interest | 14.07% | Due to increase in net income |

**Numerical Performance Indicators**

The measures of revenue growth and sales performance are presented below.

| **REVENUE GROWTH** | | | |
|---|---|---|---|
| **Pryce Corporation & Subsidiaries** | | | |
| | 2018 | 2017 | Percent Growth/ (Decline) |
| REVENUE | Php 10,272,904,539 | Php 9,226,508,097 | 11.34% |

| **VOLUME GROWTH** |
|---|
| **Principal Product – Liquefied Petroleum Gas** |

| | 2018 | 2017 | Percent Growth/ (Decline) |
|---|---|---|---|
| LPG (in kgs) | 201,825,770 | 210,166,193 | (3.97%) |

The measurements of profitability are shown below.

| **PROFITABILITY** | | | |
|---|---|---|---|
| **Pryce Corporation & Subsidiaries** | | | |
| | 2018 | 2017 | Percent Growth/ (Decline) |
| Return on Assets (%) | 16.72% | 17.18% | (2.69%) |
| Return on Equity (%) | 24.15% | 24.90% | (3.03%) |
| Net profit margin (%) | 16.73% | 16.67% | 0.39% |

The liquidity and solvency measurements are shown below:

| **LIQUIDITY** | | |
|---|---|---|
| **Pryce Corporation & Subsidiaries** | | |
| | 2018 | 2017 |
| Current ratio | 1.66 | 2.30 |
| Debt to equity ratio | 0.42 | 0.36 |

***2017 Compared to 2016***

Higher revenue growth from LPG sales drove the net income of the Company to Php 1.252 Billion for the year ended December 31, 2017, or higher by 29.6% over 2016's net income. Consolidated revenues were up 37.3% translating to Php 9.226 Billion in 2017 from 2016's Php 6.722 Billion.

Contribution to revenues is broken down by product line, as follows: LPG, including cylinders and accessories, Php 8.656 billion (or 93.82% of total); industrial gases, Php 391.49 million (4.24%); real estate sales, Php 139.41 million (1.51%); and pharmaceutical products, Php 38.98 million (0.42%).

LPG under the PryceGas brand and industrial gases are product lines of PGI, real estate sales and hotel operations (that was closed on December 31, 2016) are under the holding company Pryce Corporation while pharmaceutical products (vitamins and supplements) are the products of Pryce Pharmaceuticals, Inc. (PPhl). Oro Oxygen Corporation (OOC), a subsidiary of PGI, is engaged in the marketing and distribution of LPG and gases in Luzon. PGI and PPhI are direct subsidiaries of Pryce Corporation.

**Revenue and Volume Growth**

LPG sales volume registered an increase of 10.88% (210,166 metric tons in 2017 from 189,551 metric tons in 2016), primarily due to the VisMin market. Sales in the VisMin regions experienced a 22% year-on-year volume growth as compared to about 4% volume growth in Luzon.

LPG contract prices (CP) during the year likewise contributed to the revenue growth. CP was at an average of US$491/MT in 2017, or US$145/MT higher than 2016's US$ 346/MT.

Revenues from industrial gases registered a slight increase of 2.4% or Php 391.50 million in 2017 from Php 382.50 million in 2016. Sales of medical and industrial oxygen accounted for a little over 70% of industrial gas revenues, the balance consisting of revenues from acetylene and other gases.

Revenues from real estate (memorial park operations) was up by 4.4% or Php 139.41 million in 2017 over Php 133.57 million for 2016. Revenue from pharmaceuticals meanwhile increased by 10.7%.

**Price Movement and Market Demand**

The CP of LPG was on an uptrend in 2017. CP opened at US$477/MT in January 2017, fell to as low as US$359/MT in July 2017, then rose to as high as US$ 578.50/MT in October and November 2017 before slightly dropping to US$576/MT in December 2017. Average CP in 2017 was at US$491.42 per MT, or 42% higher than the average US$346.08 per MT in 2016.

Notwithstanding the sharp increases in LPG prices, LPG demand in 2017 grew by 9.5% from 1.485 million metric tons to 1.626 million metric tons as reported by the Department of Energy (DOE). This growth in LPG demand was driven by buoyant domestic consumption due to strong household incomes.

On industrial gases, average refill price of oxygen declined by 3.68% and those for acetylene and other gases slightly dipped by 0.14% and 0.68%, respectively. Sales volume of oxygen grew by 3.55%, while that of acetylene shrank by 4.65%; however, other gases posted a significant 50.39% increase in sales volume. Overall, industrial gases fared well in 2017 as the segment registered a 38.74% growth in gross profit compared to 2016.

**Competition and Market Share**

PGI remains a major industry player in the Philippine LPG market accounting for a market share of 13%. In Vis-Min as previously stated, PGI is one of only four (4) competitors operating in the area who sell under their respective brands. Luzon, on the other hand, is a much more competitive area where there are many competitors – five terminal operators and more than a hundred independent small to medium size refillers selling generic products.

PGI's continuing infrastructure expansions, which started about two years ago consist of increasing the storage capacities of its marine terminals and the construction and operation of more strategically located refilling plants to bring its product closer and more accessible to the markets. Given that it already has the most complete and extensive LPG infrastructure nationwide, such additional expansions will enable it to further enlarge and solidify its market share.

**Profitability**

Gross profit of the company (earnings after cost of sales) reached Php 2.22 billion during the year. Selling and general/administrative expenses aggregated Php 845.3 million, resulting in net operating income of Php 1.37 billion, representing growth of 44.2% from the year-before figure. Other income and charges, consisting of finance costs, and other income sources, reached Php 164.26 million, to yield a pre-tax income of Php 1.54 billion.

The Company made provision for income tax in the amount of Php 285.78 million, resulting in a net income after tax of Php 1.25 billion, an improvement of 29.60% from the previous year's Php 966.1 million. This net income translates to earnings per share of Php 0.567.

The total comprehensive income amounted to Php 1,266,831,312 after taking into account a remeasurement gain on retirement benefit obligation (net of tax) of Php 14,884,981.

**Liquidity**

Total liquid assets as of yearend 2017 amounted to P1.54 billion. It represents a 45.30% growth over the Php 1.06 billion balance in 2016. Current ratio increased from 2.01 in 2016 to 2.30 in 2017.

**Balance Sheet Changes**

Compared to the December 31, 2016 audited financial statements, the significant movements in balance sheet accounts are as shown below.

| Account Name | % Increase or (Decrease) | Reason for Change |
|---|---|---|
| Cash | 28.78% | Increase in income |
| Financial assets at fair value | 69.99% | Additional placement in securities |
| Trade and other receivables | (6.58%) | Collection of receivables |
| Inventories | 29.03% | Increase in sales volume and increase in LPG importation |
| Prepayments and other current assets | (10.65%) | Application of creditable withholding tax and amortization of prepayments |
| Advances to related parties | 448,716.47% | Granting of advances to related parties |
| Investment properties | 5.04% | Due to buy-back of previously dacioned properties |
| Deferred tax assets | (41.53%) | Due to recognition of income and provision of deferred tax |
| Trade and other payables | 49.13% | Due to increase in purchases and various accruals |
| Income tax payable | 5.18% | Increase in net income |
| Customers' deposits | (22.45%) | Due to recognition of deposits to revenue |
| Short-term debts | (39.13%) | Payment of short term loan |
| Retirement benefit obligation | (41.53%) | Due to payment of benefit obligation to the retirement fund |
| Advances from related parties | (100.00%) | Payment of advances |
| Deposit for future stock subscription | (100.00%) | Due to issuance of shares of stocks |
| Additional paid-in capital | 36.05% | Due to increase in capital stock |
| Retained earnings | 153.39% | Due to net income of 2017 |

| | | |
|---|---|---|
| Non-controlling interest | 10.75% | Increase in net income |

**Numerical Performance Indicators**

The measures of revenue growth and sales performance are presented below.

| REVENUE GROWTH | | | |
|---|---|---|---|
| **Pryce Corporation & Subsidiaries** | | | |
| | **2017** | **2016** | Percent Growth/ (Decline) |
| REVENUE | Php 9,226,508,097 | Php 6,722,160,460 | 37.26% |

| VOLUME GROWTH | | | |
|---|---|---|---|
| **Principal Product – Liquefied Petroleum Gas** | | | |
| | **2017** | **2016** | Percent Growth/ (Decline) |
| LPG (in kgs) | 210,166,193 | 189,551,484 | 10.88% |

The measurements of profitability are shown below.

| PROFITABILITY | | | |
|---|---|---|---|
| **Pryce Corporation & Subsidiaries** | | | |
| | **2017** | **2016** | Percent Growth/ (Decline) |
| Return on Assets (%) | 17.18% | 16.33% | 5.18% |
| Return on Equity (%) | 24.90% | 25.68% | (3.05%) |
| Net profit margin (%) | 16.67% | 16.63% | 0.23% |

The liquidity and solvency measurements are shown below:

| LIQUIDITY | | |
|---|---|---|
| **Pryce Corporation & Subsidiaries** | | |
| | **2017** | **2016** |
| Current ratio | 2.30 | 2.01 |
| Debt to equity ratio | 0.36 | 0.44 |

**Item 7. Financial Statements -** Refer to attached Audited Financial Statements of the Accountants

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Current Accountants

Since 2004, the SEC-accredited accounting firm of **Diaz Murillo Dalupan & Company (“DMD”)** has served as the Company’s external auditor, having offered reasonable audit proposal package to the Company as evaluated by the Board Audit Committee. In selecting an external auditor, the Board Audit Committee considers the standing and level of proficiency of the auditor/firm in the industry and evaluates if the fees charged are commensurate with such standing, as against the proposals submitted by other comparable firms. Pursuant to SRC Rule 68, Atty. Bethuel V. Tanupan has served as the signing partner for 2010 and 2011, then Ms. Rosemary D. de Mesa for 2012. Mr. Jozel Francisco C. Santos was the signing partner for 2013, 2014, 2015, 2016 as well as for 2017. For 2018’s audited financial statements, a change is mandated by the SRC rules, so that the new signing partner is Mr. Elirie S. Arañas.

Following are the fees (which exclude VAT) paid to DMD for 2019 and the preceding years:

| Year | External Audit Fee[1] | Tax Fees[2] | Other Fees[3] | Aggregate Fees |
|---|---|---|---|---|
| 2015 | P 571,929.00 | --- | --- | P 571,929.00 |
| 2016 | P 600,000.00 | --- | --- | P 600,000.00 |
| 2017 | P 636,000.00 | --- | --- | P 636,000.00 |
| 2018 | P 670,000.00 | --- | --- | P 670,000.00 |
| 2019 | P 705,000.00 | --- | --- | P 705,000.00 |

Resignation of Principal Accountant

There has been no resignation or dismissal of principal accountant nor the engagement of a new principal accountant during the Company’s last two fiscal years.

Disagreements with Accountants

The Company and DMD have had no disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

## PART III - CONTROL AND COMPENSATION INFORMATION

**Item 9. Directors and Executives Officers of the Registrant**

The following sets forth certain information concerning the executive officers and directors of the

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**1** In general, services include the examination of evidence supporting the amounts and disclosures in the financial statements for the respective years ending December 31 and assessing the accounting principles and significant estimates of management and evaluating the overall financial statement presentation, with a view to the expression of the auditor’s opinion on the fairness of the presentation of the financial statements in conformity with Philippine Financial Reporting Standards in all material respects. Audit fees above do not yet include the 12% VAT.

**2** No engagement.

**3** No engagement.

Company as of December 31, 2019:

| Name | Age | Position with the Company |
|---|---|---|
| BOARD OF DIRECTORS | | |
| Salvador P. Escano* | 68 | Chairman |
| Efren A. Palma | 54 | President |
| Ramon R. Torralba | 75 | Director & Chief Legal Counsel |
| Xerxes Emmanuel F. Escaño | 28 | Director |
| Ray W. Jovanovich | 57 | Director |
| Gener T. Mendoza | 57 | Independent Director |
| Arnold L. Barba | 68 | Independent Director |
| EXECUTIVE OFFICERS | | |
| **Pryce Corporation(Parent Company)** | | |
| Salvador P. Escano* | 68 | Chief Executive Officer |
| Efren A. Palma | 54 | President |
| Ramon R. Torralba | 75 | Chief Legal Counsel |
| Samuel H. Cinco | 60 | FVP – Regional Head Northern Mindanao |
| Felicano B. Hatud | 61 | Corporate Secretary; VP-Finance |
| Sonito N. Mole | 61 | Regional Head – Southern Mindanao Opns. |
| Jose Ma. C. Ordenes | 60 | Treasurer; SVP – Operations Monitoring & Corp. Information & Compliance Officer |
| Earl Christian L. Lerio | 31 | OIC/ VP – Chairman's Office; Alternate Corporate Information & Compliance Officer |
| **Pryce Gases, Inc. (Subsidiary)** | | |
| Salvador P. Escano* | 68 | Chairman |
| Rafael P. Escano* | 60 | President |
| Efren A. Palma | 54 | Senior EVP- Chief Finance Officer |
| Jose Ma. L. Escano* | 56 | SEVP/REO Southern Mindanao Opns-1 |
| Gabriel I. Macion | 56 | EVP-Technical Services Dept. |
| Feliciano B. Hatud | 61 | Corporate Secretary, VP |
| Alexis M. Sulatre | 57 | SEVP/REO Central Visayas Opns |
| Ethelbert Deguit | 47 | SVP/REO Eastern Visayas Opns |
| Christy Ann Fuentes-Paasa | 36 | VP/REO Northern Mindanao Opns |
| Franz Jonas L. Villegas | 49 | VP/REO Western Visayas Opns 1 & 2 |
| Jeremy Riel E. Sumillano | 30 | AVP/REO Southern Mindanao Opns-2 |
| Roque C. Competente | 39 | AVP/REO Western Mindanao Opns |

*Messrs. Salvador P. Escaño and Rafael P. Escaño are brothers; Jose Ma. L. Escaño is a cousin to the brothers. Xerxes Emmanuel F. Escaño is a son to Salvador P. Escaño.

Salvador P. Escaño is concurrently Chairman of Pryce Development Corporation and Pryce Gases, Inc. Mr. Escano also served as Director of Basic Petroleum & Minerals, Inc. until 1989. He was previously General Manager of Anselmo Trinidad and Co., (HK) Ltd., a Hongkong-based stockbrokerage firm from 1978 to 1981 and a member of the Board of Governors of the Makati Stock Exchange from 1989 to 1991. Mr. Escano is also currently a director of Crown Equities, Inc., another listed company. He holds a Masters degree in Business Administration from the University of the Philippines.

Ramon R. Torralba previously served as president of Tower Securities, Inc., a stockbrokerage firm from 1989 to 1992. Atty. Torralba is a law graduate from Ateneo de Manila University and a member of the Integrated Bar of the Philippines.

Ray W. Jovanovich began his investment career in 1988 in Hong Kong and spent 25 years managing portfolios on behalf of global institutions. A pioneer in Asia's emerging markets, he developed the world's first investment funds for Thailand, Indonesia, the Philippines, and India in the late 1980s. In the final decade of his career, Mr. Jovanovich served as Chief Investment Officer— Asia for Amundi. He retired at the end of 2011 in order to focus on educational initiatives and philanthropy, and now lectures on a variety of Asian topics at universities in both America and Asia. He also continues to do project / advisory work for various financial institutions, including the International Monetary Fund, on China-related issues and the Philippines.

Efren A. Palma is a Certified Public Accountant and was elected President of the Company in 2015. He joined SGV & Co. in 1986, after which he worked for the Alcantara Group of Companies in 1989 as senior internal auditor. He was later promoted as Finance Manager for one of the construction companies of the Alcantaras in Iligan City before joining Pryce Gases, Inc. in 1996. He holds a Bachelor's Degree in Commerce from Immaculate Concepcion College in Ozamis City.

Xerxes Emmanuel F. Escaño has been Managing Director of Pryce Pharmaceuticals, Inc. since January 1, 2015. Prior to this, he was connected with Teach for the Philippines before becoming Procurement Manager for Procter & Gamble. In the latter capacity, his functions included overseeing the entire end-to-end procurement process for all marketing, sales, research and administrative orders for the company's regional headquarters in Singapore and Malaysia. He holds a Bachelor's Degree in Management from the Ateneo de Manila University.

Arnold L. Barba is name partner of the Barba Barba Barba & Associates law firm based in Cagayan de Oro City. He is also currently an Associate Professor and Lecturer in the College of Law, Xavier University - Ateneo de Cagayan. Prior to that, he was exposed to government work at the Bukidnon Public Works and Highways as well as the Provincial Population Office of Misamis Oriental. He likewise previously served as Sales Head of the Macajalar Realty and Development Corp. and Director of the Public Relations and Legal Affairs Departments of the Cagayan Electric Power & Light Co. Atty. Barba is a member of the Integrated Bar of the Philippines, obtaining his Bachelor of Laws degree from Xavier University, and he placed 9th in the bar examinations of 1984.

Gener T. Mendoza is a nominee for the position of independent director. He is the president of GNCA Holdings, Inc., which provides business consultancy services, with focus on corporate financial advisory. He has more than 35 years of experience, among others, in banking, financial management, and business development. Mr. Mendoza is a graduate of the Ateneo de Manila University with a Bachelor of Science degree in Management Engineering (Summa Cum Laude) and has a Master of Business Administration degree from Harvard Business School.

Feliciano B. Hatud first joined Pryce Securities Inc. (PSI) in1987 as a stock trader, in charge of buying and selling shares, and remained with PSI for 14 years. In December 2001, he was transferred to PGI as Assistant Vice President for Purchasing. He was thereafter promoted as Vice President of the same department and later on assumed the same position concurrently in PC. Mr. Hatud is agraduate of Southwestern University in Cebu with a Bachelor's Degree in Commerce major in Accounting.

Sonito N. Mole joined the Pryce Group thru PGI in 1987 as an area sales manager; he later moved to PC (then Pryce Properties Corp.) in 1990 as operations head for the company's southern Mindanao operations. He is a graduate of the University of Visayas with a Bachelor's Degree in Marine Transportation.

Samuel H. Cinco began work in PGI in 1988 as a salesman and later promoted as Area Manager of the company's Cagayan de Oro sales center. In 1990, he was assigned to PGI's Special Project Landbanking Division and later moved to then Pryce Properties Corp. (now PC) and at present is heads the company's Landbanking & Sales for Pryce Corp.'s Northern Mindanao Operations. He has a Bachelor's degree in Business Administration obtained at Xavier University, Cagayan de Oro City. He is a licensed real estate broker.

Jose Ma. C. Ordenes has been with the Company since 1993. He holds a Bachelor's degree in Mechanical Engineering from the University of Santo Tomas. Before joining the Pryce Group, he worked at Batangas Bay Carries, Inc. (a subsidiary of Pilipinas Shell Petroleum Corp.), which then provided the domestic marine transport services of Pilipinas Shell. Previous to this, his work experience included teaching math and engineering subjects.

Earl Christian Laguna Lerio, Officer-in-Charge for the Office of the Chairman, joined Pryce Group in 2018. Concurrently, he is an Alternate Corporate Information and Compliance Officer for Pryce Corporation. He obtained his Bachelor's Degree from the University of the Philippines Los Baños and Juris Doctor Degree from the University of Cebu School of Law. He is a member of the Integrated Bar of the Philippines.

Rafael P. Escaño has thirty (30) years of experience in industrial gas manufacturing and marketing, having previously occupied various positions including that of General Manager in Central Luzon Oxygen & Acetylene Company. He obtained his degree in Economics from the Xavier University in Cagayan de Oro City.

Jose Ma. L. Escaño began work in the Pryce Group thru PGI in 1987 as a Plant Supervisor and later moved to challenging positions in sales and marketing. He is a graduate of the University of Cebu with a Bachelor's Degree in Marine Transportation.

Alexis M. Sulatre began work as an accounting clerk in the company of CLOACO, Inc., the precursor company of PGI. At PGI, he became the head of a PGI sales center from 1989 to 1993. He continually moved up through the ranks, successively assuming positions as Area Sales Supervisor, Area Manager in the Central Visayas Operations (CVO), Regional Manager for CVO, until he became the current Senior Vice President/Regional Executive Officer for CVO. Mr. Sulatre holds a bachelor's degree in commerce major in accounting from the University of the Visayas in Cebu City.

Gabriel I. Macion joined PGI in 1989 as a Plant Operator and later in 2001 was promoted as AVP-Head of the Technical Services Department. He was again promoted as VP-Corporate Assistant Admin Head in 2004 and in 2005 he became the VP-Corporate Administration Head. Mr. Macion is a licensed chemical engineer and graduated magna cum laude from the Divine Word University with a degree of Bachelor of Science in Chemical Engineering.

Ethelbert Deguit joined PGI in 2010 as Finance and Accounting Head in Panay Island Operations. In 2011, he became the regional executive officer of the Eastern Visayas Operations. Prior to PGI, Mr. Deguit was a banker for 12 years and a part time accounting instructor for 7 years. He is a graduate of Xavier University attaining a bachelor's degree in Accountancy. He also holds a law degree from the same university.

Franz Jonas L. Villegas has a degree in Bachelor of Science in Commerce major in Accounting obtained at the University of San Carlos, Cebu City. He was previously a branch manager of BPI in Pagadian City and PSBank in Ozamiz City. He began in PGI as a management trainee in 2012 andlater became the Sales Supervisor of Panay Island Operations. He was subsequently transferred to Northern Mindanao Operations and became the regional executive officer thereof.

Christy Ann Fuentes-Paasa graduated from Xavier University with a Bachelor's degree in Elementary Education. She earned units for her MA in Guidance and Counseling. Before joining PGI, Ms. Paasa was an Area Manager in Kwartagram Corporation - a money remittance services company. Thereafter she joined PGI in 2011 as regional executive officer of Panay Island Operations.

Jeremy Riel E. Sumillano started working in PGI in 2011 as a management trainee and was trained in various key positions of a company's regional operation. He later became OIC-Head of PGI's sales center in General Santos City for two years. In January 2016, Southern Mindanao Operations (SMO) was carved into two regions, creating SMO-2 to which he was assigned / promoted to become its regional executive officer. Mr. Sumillano is a licensed / registered nurse and graduated from Cagayan de Oro College–Phinma in 2010.

Roque C. Competente joined PGI in 2002 as an accounting staff and continually moved up through the ranks until he was moved to PGI's Northern Mindanao Operations (NMO) to be its acting sales & marketing manager in year 2014. He eventually became regional executive officer for Western Mindanao Operations, which is based in Aurora, Zamboanga del Sur. Mr. Competente has a Bachelor's Degree in Commerce Major in Entrepreneurial Management from the Asian Development Foundation College in Tacloban City, Leyte.

Currently all directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

**Item 10. Executive Compensation**

Following is the information as to the aggregate compensation paid to or estimated to be paid to the Company's Chief Executive Officer (CEO), and its four most highly compensated officers, and to all officers and directors as a group (unnamed), during the last two fiscal years and in the ensuing fiscal year:

| | Year | Salary (Pesos) ('000) | Bonus & other annual compensations (Pesos) ('000) | Total (Pesos) ('000) |
|---|---|---|---|---|
| Salvador P. Escaño<br>CEO & Chairman | | | | |
| Efren A. Palma<br>President | | | | |
| Jose Ma. C. Ordenes<br>SVP - Treasurer | | | | |
| Samuel H. Cinco<br>FVP – Sales & Landbanking | | | | |
| Sonito N. Mole<br>SMO – Regional Head | | | | |
| Aggregate compensation of above named officers | 2018 | 4,359 | 905 | 5,264 |
| | 2019 | 4,359 | 961 | 5,319 |
| | 2020 (est.) | 4,359 | 950 | 5,309 |
| | | | | |
| Other junior officers, directors and certain managers as a group, unnamed | 2018 | 3,731 | 729 | 4,460 |
| | 2019 | 3,731 | 729 | 4,460 |
| | 2020 estimated | 3,731 | 729 | 4,460 |

The Directors receive a per diem allowance of twenty thousand pesos (P20,000) for their attendance in Board Meetings. Aside from this, there is no regular compensation for directors of the Company.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

**Security Ownership of Certain Record and Beneficial Owners (as of December 31, 2019)**

Based on the records of the Company's Stock Transfer Agent, BDO Unibank, Inc. (Trust Banking Group), the Company knows of no other person who is directly or indirectly the record and/or beneficial owner of more than 5% of the Company's voting securities as of December 31, 2019, except as set forth hereafter:

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner[4] | Citizenship | No. of Shares Held | Percent to Total of Class |
|---|---|---|---|---|---|
| Common | Guild Securities, Inc. | Various[5] | Filipino | 1,017,140,468 | 50.24% |
| | PCD Nominee Corporation | Various | Filipino | 577,008,948 | 28.50% |
| | | Josefina Multi-Ventures Corp. is the beneficial owner.[6] | Filipino | 108,614,512 (indirect) | 5.41% |
| | Hinundayan Holdings Corporation (affiliate of the Issuer) | Hinundayan Holdings Corporation is also the beneficial owner[7] | Filipino | 160,708,000 (direct) | 7.94% |

**4** The Company knows of no right of any owner, director, or officer herein named to acquire beneficial ownership of any number of shares within thirty (30) days from the date of this statement or thereafter.

**5** Guild Securities, Inc. is a stock brokerage firm and a trading participant in the Philippine Central Depository (PCD), holding shares for the account of its various clients.

**6** The Board of Directors of Josefina Multi-Ventures Corp. (JMVC) has the power to decide how its shares will be voted and has authorized Mr. Salvador P. Escaño to vote the shares of JMVC. JMVC is located at 17/F, Pryce Center, 1179 Chino Roces Ave., Makati City. Mr. Salvador P. Escaño owns 99% of the total outstanding capital stock of the corporation.

**7** The Board of Directors of Hinundayan Holdings Corporation (HHC) has the power to decide how its shares will be voted and has authorized Mr. Salvador P. Escaño to vote the shares of HHC. HHC is located at 17/F, Pryce Center, 1179 Chino Roces Ave., Makati City. PGI holds 77% of the total outstanding capital stock of the corporation.

| | | | | | |
|---|---|---|---|---|---|
| | Josefina Multi-Ventures Corp. (affiliate of the Issuer) | Josefina Multi-Ventures Corp. is also the beneficial owner.(see footnote 6) | Filipino | 24,500,000 (direct) | 1.21% |

*Note: Guild Securities, Inc., a stock brokerage firm with business address at Unit 1215, 12th flr. Tower & Exchange Plaza, Ayala Avenue, Makati City, holds shares for the account of various clients, including PC's. Mr. Antonio B. Alvarez, the firm's president, holds the majority ownership of the firm.*

**Security Ownership of Management (as of December 31, 2019)**

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership (see footnote) | | Citizenship | Percent to Total of Class |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Common | Salvador P. Escaño | 33,492,660 | 26,513,250* | Filipino | 3.00% |
| | Ramon R. Torralba, Jr. | 218,806 | 0 | Filipino | 0.01% |
| | Efren A. Palma | 100 | 80,000 | Filipino | 0.00% |
| | Xerxes Emanuel F. Escaño | 0 | 26,513,250* | Filipino | - |
| | Ray W. Jovanovich | 0 | 1,000 | American | 0.00% |
| | Gener T. Mendoza | 20,000 | 82,600 | Filipino | 0.01% |
| | Arnold L. Barba | 0 | 3,100 | Filipino | 0.00% |
| | Jose Ma. C. Ordenes | 1,449 | 0 | Filipino | 0.00% |
| | Sonito N. Mole | 0 | 0 | Filipino | 0.00% |
| | Samuel H. Cinco | 0 | 0 | Filipino | 0.00% |
| | Feliciano B. Hatud | 0 | 25,000 | Filipino | 0.00% |
| | Earl Christian L. Lerio | 0 | 0 | Filipino | 0.00% |
| | Totals | 33,733,015 | 26,704,950 | | 3.02% |

*Indirect shares in a joint account of Messrs. Salvador P. Escaño (father) and Xerxes Emanuel F. Escaño (son)

The following table furthermore shows direct/record ownership of its directors in the Company, with beneficial ownership, including without limitation, the power to vote the shares and to dispose of the same, being retained by the beneficial owner corporations through their respective Boards:

| Title of Class | Name of Record Owner | Name of Beneficial Owner | Amount and Nature of Record Ownership | Citizenship | Percent to Total of Class |
|---|---|---|---|---|---|
| Common | Salvador P. Escaño | Pryce Development | 1,684,450 | Filipino | 0.084% |
| | Ramon R. Torralba, | Pryce Development | 90,000 | Filipino | 0.004% |

**Item 12: Certain Relationships and Related Party Transactions**

The Company is not aware of any transaction, not in the ordinary course of business during the period under review, with a related company or its subsidiary in which a director, executive officer, or stockholder, owning 10% or more of total outstanding shares of the Company and members of their immediate family had or is to have a direct or indirect material interest. Likewise, the Company knows of no parties that fall outside the definition of "related parties" but with whom the registrant or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties at an arm's length basis. Transactions with other parties, which fall outside the definition of 'related parties' under IAS 24, are entered into on an arm's length basis. Additional disclosures concerning related party/ies are incorporated by way of reference to Note no. 20 under the heading *Related Party Transactions* in the Notes to the audited Financial Statements of the Accountants.

During the period under review, the Company is not aware of any related party transaction(s), either individually or in aggregate over the twelve (12)-month period of 2019, which occurred with the same related party, that amounted to at least ten (10%) of the Company's total consolidated assets or more, based on audited financial statements as of December 31, 2018. The Company has Related Party Transactions Policy which was filed with the SEC on December 11, 2019 and is available at the company's website (*http://www.pryce.com.ph/corporate-governance/companys-policies/related-party-transaction-policy/*).

## PART IV EXHIBITS AND SCHEDULES

### Item 13. Compliance with Corporate Governance

The Company has a Manual of Corporate Governance (the "Manual") to institutionalize sound corporate governance practices, enhance investor protection, and increase accountability. The Company has a Compliance Officer (as the Manual requires) who has direct reporting responsibilities to the Chairman of the Board of Directors and monitors compliance with corporate governance matters. The Manual was revised / updated in March 2011 and July 2014 pursuant to SEC circulars. The Company nevertheless continuously reviews and evaluates its corporate governance policies to ensure the observance of sound governance practices. Likewise, pursuant to the requirements of the Manual, different board committees had been constituted at the Board's Organizational Meeting on June 28, 2019 as follows:

*Board - Audit Committee*

The Board Audit Committee handles audit supervision and/or oversight functions, particularly ensuring compliance with regulatory and internal financial management standards and procedures, performing oversight financial management functions, approving audit plans, coordinating with internal and external auditors, elevating the company's audit procedures to international standards, and developing a transparent financial management system to ensure the integrity of internal control activities throughout the Company. The following are the members of the Board Audit Committee:

(i) Arnold L. Barba – *Chair* (Independent Director)
(ii) Xerxes Emmanuel F. Escaño – Member
(iii) Gener T. Mendoza – Member (Independent Director)

*Board - Nomination Committee*

The Board Nomination Committee pre-screens and shortlists candidates nominated to the board in accordance with the criteria spelled out in its Manual and at all times within the realm of good corporate governance. The following are the members of the Board Nomination Committee:

(i) Salvador P. Escaño – *Chair*
(ii) Xerxes Emmanuel F. Escaño – Member
(iii) Gener T. Mendoza – Member (Independent Director)

*Board - Compensation and Remuneration Committee*

The Board Compensation and Remuneration Committee is primarily tasked to establish and evaluate formal and transparent procedures for developing policies on executive remuneration and for fixing the remuneration packages of the directors and officers, to designate the amount of remuneration, which shall be sufficient to attract and retain directors and officers needed to successfully run the Company, The members of the Board Compensation and Remuneration Committee are:

(i) Ramon R. Torralba, Jr. – *Chair*
(ii) Salvador P. Escaño – Member
(iii) Arnold L. Barba – Member (Independent Director)

The Company adopted the evaluation system proposed by the SEC in order to measure or determine the level of compliance of the Board of Directors and the Management with corporate governance practices. For the year 2019, the Company has substantially observed and complied with the provisions in the Manual and no culpable deviation from the Manual has been noted or observed.

The Company continuously reviews and evaluates its corporate governance policies to ensure the observance of sound governance practices. The evaluation system provided by the Commission always provides a good starting point in evaluating and improving the Manual. The Company will be submitting its Integrated Annual Corporate Governance Report in accordance with prevailing SEC regulations.

**Item 14. Exhibits, SEC Form 17-C Reports, Sustainability Report, Material Related Party Transactions**

**Audited Financial Statements**

Except for the Audited Financial Statements, the Company finds no other exhibit(s) that needs to be filed following a review of the required exhibits for SEC 17-A under the Exhibit Table in Part VII of Annex C, as amended.

**Sustainability Report**

In compliance to SEC Memorandum Circular No. 4, dated February 15, 2019, attached to this SEC 17-A (annual report) is the company's Sustainability Report for 2019.

**Reports under SEC Form 17-C were filed with the SEC during 2019.**

The Company filed reports on the following dates under SEC Form 17-C within the calendar year ending December 31, 2019, as shown in the table below:

| Date | Matters disclosed under SEC 17-C |
|---|---|
| Apr 05, 2019 | Postponement of Annual Stockholders' Meeting |
| Apr 22, 2019 | Approval by PPC's Board of the Audited Financial Statements (Consolidated) for the year ended Dec. 31, 2018 |
| Apr 23, 2019 | Certification by the Court on its closure and termination of PPC's corporate rehabilitation proceedings Ordered on July 28, |

| | |
|---|---|
| | 2015 |
| May 10, 2019 | PPC's Annual Stockholders' Meeting |
| May 17, 2019 | Declaration of Cash Dividends |
| May 27, 2019 | Demise of PPC's Corporate Secretary (Simeon S. Umandal) |
| Jul 01, 2019 | Results of the Annual Stockholders' Meeting of Pryce Corporation held on June 28, 2019. |
| Jul 01, 2019 | Results of the Organizational Meeting of the Board of Directors held on June 28, 2019 |
| Dec 09, 2019 | Declaration of Cash Dividends |
| Various Dates | Disclosure reports of all buy-backs of PPC (Company) shares |

----- nothing follows on this page -----

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on June ___, 2020.

**PRYCE CORPORATION**
By:

SALVADOR P. ESCAÑO
Chairman & CEO

EFREN A. PALMA
President

FELICIANO B. HATUD
Corporate Secretary

JOSE MA. C. ORDENES
Treasurer

**SUBSCRIBED AND SWORN** to before me this JUN 3 0 2020 day of June __, 2020 affiants exhibiting to me their drivers' licenses, as follows:

| Name | Driver's License No. | To expire on : |
|---|---|---|
| Salvador P. Escaño | C10-75-021861 | 11.14.2023 |
| Efren A. Palma | M02-92-019608 | 06.20.2024 |
| Jose Ma. C. Ordenes | N26-08--001284 | 09.16.2024 |
| Feliciano B. Hatud | NO3-97-239404 | 11.11.2022 |

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Series of 2020

ATTY. EARL CHRISTIAN L. LERIO
Notary Public/Until December 31, 2020/Makati City
Appointment No. M-221
PTR No. 8121873/Jan. 07, 2020/Makati City
IBP No. 101906/Jan. 07, 2020/Cebu City
Roll of Attorney's No. 66884
MCLE Compliance No. VI-0019222
March 20, 2019
17th Floor, Pryce Center
1179 Chino Roces Avenue, Makati City
8899-4401/8899-9407

# *Pryce Corporation and Subsidiaries*

*Consolidated Financial Statements*
*December 31, 2019 and 2018 and*
*For Each of the Three Years in the*
*Period Ended December 31, 2019*

*and*

*Independent Auditors' Report*

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PRYCE CORPORATION AND SUBSIDIARIES** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as at and for the years ended December 31, 2019 and 2018, in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

**Diaz Murillo Dalupan and Company**, the independent auditor, appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**SALVADOR P. ESCAÑO**
Chairman

**EFREN A. PALMA**
President

**JOSE MA. C. ORDENES**
Treasurer

Signed this 26th day of June, 2020

JUN 30 2020

SUBSCRIBED AND SWORN to before me this ____ day of ____, ____ at Makati City, affiant exhibited to me Gov't ID No. ____

ATTY. JOSHUA P. LAPUZ
Notary Public Makati City
Until Dec. 31, 2021
Appointment No. M-66-(2020-2021)
PTR No. 8116016 Jan. 2, 2020 / Maka
IBP Lifetime No. 04897 Roll No. 4579
MCLE Compliance No. VI-0016565
G/F Fedman Bldg., 199 Salcedo St.
Legaspi Village, Makati City

Doc. No. 147
Page No. 31
Book No. 113
Series 2020

## Independent Auditors' Report

To the Board of Directors and Stockholders of
**PRYCE CORPORATION AND SUBSIDIARIES**
17th Floor Pryce Center, 1179 Don Chino Roces Avenue
cor. Bagtikan Street, Makati City

*Opinion*

We have audited the consolidated financial statements of **Pryce Corporation and Subsidiaries** (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

*Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

*Revenue Recognition of Real Estate Sales*

The Group's revenue recognition process, policies and procedures on real estate sales are significant to our audit because these involve application of significant judgments and estimates to: (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.

*Sale of memorial lots*

Under PFRS 15, the Group has concluded that revenue from sale of memorial lots should be 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 of purchase of lawn lot and upon 50% payment of family estate.

*Sale of subdivision lots and office units*

Revenues from sale of subdivision lots and office units are recognized at a point in time when control over the subdivision lots and office units are transferred to the customer, this normally happen when the subdivision lots and the office units are turnover to the buyer.

*Audit Response*

We obtained an understanding of the Group's revenue recognition process with respect to real estate projects and tested the related controls. We performed inquiries on relevant personnel on sales, collection and reporting process. For the customer's deposit, we evaluated the management's basis by comparing this to the historical analysis of monthly sales collections report from total contract to buy report. We traced the analysis to supporting documents such as the monthly sales report and contract to buy. We obtained sales and collection reports and compared the data with the information in the Group's revenue calculation and monitoring schedule, and reviewed the disposition of differences noted. On a test basis, we traced reported lawn lot sales and subdivision lots and office units against actual collection to corresponding official receipt and contracts to buy and bank records.

We performed cut-off procedures by examining sales and collection reports for the month subsequent to the cut-off date. We evaluated the disclosures made in the financial statements related to adoption of PFRS 15.

*Goodwill impairment assessment*

The Group has goodwill amounting to ₱70.67 million related to acquisition of Pryce Gases, Inc. and Pryce Pharmaceuticals, Inc. The annual impairment test was significant to our audit as the assessment process is complex by nature and is based on management's judgment and assumptions.

Management has concluded that the goodwill is not impaired. This conclusion was based on a value in use model that required significant management judgment with respect to the discount rate and the underlying cash flows, in particular future revenue growth.

Our procedures in relation to the management's impairment assessment included: Assessing the valuation methodology, Challenging the reasonableness of key assumptions based on our knowledge of the business and industry, and Reconciling input data to supporting evidence such as approved budgets and considering the reasonableness of these budgets. We found the assumptions made by management in relation to the value in use calculations to be reasonable based on available evidence. The significant inputs have been appropriately disclosed in note 13.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

*Auditors' Responsibilities for the Audits of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Elirie S. Arañas.

**Diaz Murillo Dalupan and Company**
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 11, 2020
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022
By:

Elirie S. Arañas
Partner
CPA Certificate No. 0101773
SEC Accreditation No. 1679-A, Group A, effective until May 9, 2021
Tax Identification No. 207-051-549
PTR No. 8147696, January 18, 2020, Makati City
BIR Accreditation No. 08-001911-011-2019, effective until March 27, 2022

June 30, 2020

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Financial Position**

| | As at December 31 | |
|---|---|---|
| | **2019** | 2018 - as restated |
| **ASSETS** | | |
| **Current assets** | | |
| Cash - note 4 | **₱1,114,563,626** | ₱848,846,339 |
| Financial assets at fair value through profit or loss (FVPL) - note 5 | **1,042,561,957** | 805,336,648 |
| Trade and other receivables - note 6 | **380,324,620** | 337,009,782 |
| Inventories - note 7 | **1,234,397,458** | 1,072,070,705 |
| Real estate projects - note 8 | **842,566,291** | 816,037,022 |
| Prepayments and other current assets - note 9 | **136,201,481** | 74,985,424 |
| | **4,750,615,433** | 3,954,285,920 |
| **Noncurrent assets** | | |
| Advances to related parties - note 21 | **50,343,485** | 131,444,881 |
| Property, plant and equipment (net) - notes 10 and 11 | **7,726,703,455** | 6,993,581,230 |
| Investment properties - note 12 | **389,328,616** | 389,328,616 |
| Right-of-use assets - note 34 | **74,703,747** | - |
| Deferred tax assets - note 29 | **70,618,411** | 35,174,217 |
| Goodwill - note 13 | **70,668,305** | 70,668,305 |
| Other non-current asset - note 14 | **44,898,060** | 21,087,974 |
| | **8,427,264,079** | 7,641,285,223 |
| **TOTAL ASSETS** | **₱13,177,879,512** | ₱11,595,571,143 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Trade and other payables - note 15 | **₱1,212,909,745** | ₱1,021,138,260 |
| Short-term debts - note 17 | **1,320,612,069** | 905,078,052 |
| Dividends payable - note 20 | **251,486,815** | 248,653,686 |
| Customers' deposits - note 16 | **104,873,353** | 109,324,422 |
| Lease liabilities (current) - note 34 | **13,616,354** | - |
| Income tax payable | **184,030,560** | 116,468,529 |
| | **3,087,528,896** | 2,400,662,949 |
| **Noncurrent liabilities** | | |
| Retirement benefits obligation - note 28 | **114,913,775** | 117,247,393 |
| Lease liabilities (noncurrent) - note 34 | **66,344,820** | - |
| Deferred tax liabilities - note 29 | **716,282,230** | 714,111,829 |
| | **897,540,825** | 831,359,222 |
| **Total liabilities** | **3,985,069,721** | 3,232,022,171 |

*(Forward)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Financial Position**

| | As at December 31 | |
|---|---|---|
| | **2019** | 2018 - as restated |
| *(Continued)* | | |
| **Equity** | | |
| Equity attributable to equity holders of the Parent Company | | |
| Capital stock - note 18 | **2,024,500,000** | 2,024,500,000 |
| Additional paid-in capital | **369,834,820** | 369,834,820 |
| Retained earnings | **4,904,623,195** | 3,874,083,133 |
| Other comprehensive income - note 27 | **1,556,503,464** | 1,639,781,107 |
| Treasury stocks - note 19 | **(191,622,697)** | (6,266,563) |
| | **8,663,838,782** | 7,901,932,497 |
| Non-controlling interest | **528,971,009** | 461,616,475 |
| **Total equity** | **9,192,809,791** | 8,363,548,972 |
| **TOTAL LIABILITIES AND EQUITY** | **₱13,177,879,512** | ₱11,595,571,143 |

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

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

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| **REVENUES** - note 22 | | | |
| Liquefied petroleum gases, industrial gases and fuels | **₱10,451,137,522** | ₱10,001,541,311 | ₱9,048,113,676 |
| Real estate | **128,139,054** | 226,995,376 | 139,414,929 |
| Pharmaceutical products | **51,022,688** | 44,367,852 | 38,979,492 |
| | **10,630,299,264** | 10,272,904,539 | 9,226,508,097 |
| **COST OF SALES** - note 23 | | | |
| Liquefied petroleum gases, industrial gases and fuels | **7,675,462,201** | 7,684,471,818 | 6,946,859,035 |
| Real estate | **28,776,187** | 62,899,417 | 33,809,725 |
| Pharmaceutical products | **33,854,266** | 29,902,625 | 27,080,705 |
| | **7,738,092,654** | 7,777,273,860 | 7,007,749,465 |
| **GROSS PROFIT** | **2,892,206,610** | 2,495,630,679 | 2,218,758,632 |
| **OPERATING EXPENSES** - note 24 | | | |
| Selling expenses | **532,082,007** | 405,743,995 | 374,691,340 |
| General and administrative expenses | **552,932,490** | 472,402,488 | 470,608,380 |
| | **1,085,014,497** | 878,146,483 | 845,299,720 |
| **INCOME FROM OPERATIONS** | **1,807,192,113** | 1,617,484,196 | 1,373,458,912 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance costs - note 25 | **(52,579,062)** | (34,178,845) | (31,460,634) |
| Fair value gain (loss) - note 5 | **43,071,659** | (47,020,829) | 37,321,484 |
| Other income - note 26 | **159,342,549** | 182,563,215 | 158,403,895 |
| | **149,835,146** | 101,363,541 | 164,264,745 |
| **INCOME BEFORE INCOME TAX** | **1,957,027,259** | 1,718,847,737 | 1,537,723,657 |
| **INCOME TAX EXPENSE** - note 29 | **(438,191,322)** | (315,874,038) | (285,777,326) |
| **NET INCOME FOR THE YEAR** | **1,518,835,937** | 1,402,973,699 | 1,251,946,331 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Remeasurement gain (loss) on retirement benefit obligation (net of tax) | - | - | 14,884,981 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **₱1,518,835,937** | ₱1,402,973,699 | ₱1,266,831,312 |
| **Net income attributable to:** | | | |
| Equity holders of the Parent Company | **1,393,363,722** | ₱1,288,081,156 | ₱1,148,682,457 |
| Non-controlling interests | **125,472,215** | 114,892,543 | 103,263,874 |
| | **₱1,518,835,937** | ₱1,402,973,699 | ₱1,251,946,331 |

*(Forward)*

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

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| *(Continued)* | | | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Parent Company | **1,393,363,722** | ₱1,288,081,156 | ₱1,163,567,438 |
| Non-controlling interests | **125,472,215** | 114,892,543 | 103,263,874 |
| | **₱1,518,835,937** | ₱1,402,973,699 | ₱1,266,831,312 |
| **EARNINGS PER SHARE** - note 30 | **₱0.692** | ₱0.636 | ₱0.567 |

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

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Changes in Equity**

| | For the Years Ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Other comprehensive income (Note 27) | | | | | |
| | Capital stock (Note 18) | Additional paid-in Capital | Revaluation reserves | Remeasurement gain | Retained earnings | Treasury stocks (Note 19) | Non-controlling interest | Total |
| **BALANCE AS AT JANUARY 1, 2018 - AS PREVIOUSLY STATED** | ₱2,024,500,000 | ₱369,834,820 | ₱1,702,210,318 | ₱20,848,377 | ₱1,692,745,178 | ₱ - | ₱366,516,900 | ₱6,176,655,593 |
| Prior period adjustment - note 20 | - | - | - | - | 1,261,009,225 | - | 43,548,346 | 1,304,557,571 |
| **BALANCE AS AT JANUARY 1, 2018 - AS RESTATED** | 2,024,500,000 | 369,834,820 | 1,702,210,318 | 20,848,377 | 2,953,754,403 | - | 410,065,246 | 7,481,213,164 |
| **Total comprehensive income for the year** | | | | | | | | |
| Net income for the year | - | - | - | - | 1,288,081,156 | - | 114,892,543 | 1,402,973,699 |
| Transfer of revaluation reserve deduction from operations through additional depreciation charges | - | - | (118,967,983) | - | 118,967,983 | - | | - |
| Deferred income tax effect on revaluation reserve charged to operations through additional depreciation | - | - | 35,690,395 | - | - | - | - | 35,690,395 |
| Remeasurement gain on retirement benefit obligation | | | | | | | | - |
| Change in interest to PGI resulting from increase in interest of Parent Company from 91.04% to 91.35% | - | - | - | - | 6,409,287 | - | (14,909,287) | (8,500,000) |
| **Transactions with owners** | | | | | | | | |
| Declaration of cash dividend - note 20 | - | - | - | - | (485,649,696) | - | (48,432,027) | (534,081,723) |
| Issuance of capital stock | - | - | - | - | - | (6,266,563) | - | (6,266,563) |
| Effect of changes in Parent Company ownership in PGI from purchase of additional shares | - | - | - | - | (7,480,000) | - | - | (7,480,000) |
| **Total transactions with owners** | - | - | - | - | 493,129,696 | (6,266,563) | (48,432,027) | (547,828,286) |
| **BALANCE AS AT DECEMBER 31, 2018** | **₱2,024,500,000** | **₱369,834,820** | **₱1,618,932,730** | **₱20,848,377** | **₱3,874,083,133** | **(₱6,266,563)** | **₱461,616,475** | **₱8,363,548,972** |

*(Forward)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Changes in Equity**

| | For the Years Ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Other comprehensive income (Note 27) | | | | | |
| | Capital stock (Note 18) | Additional paid-in Capital | Revaluation reserves | Remeasurement gain | Retained earnings | Treasury stocks (Note 19) | Non-controlling interest | Total |
| *(Continued)* | | | | | | | | |
| **BALANCE AS AT JANUARY 1, 2019** | ₱2,024,500,000 | ₱369,834,820 | ₱1,618,932,730 | ₱20,848,377 | ₱3,874,083,133 | (₱6,266,563) | ₱461,616,475 | ₱8,363,548,972 |
| Effect of adoption of PFRS 16 - note 2 | - | - | - | - | (1,660,709) | - | - | (1,660,709) |
| **BALANCE AS AT JANUARY 1, 2019 - AS RESTATED** | 2,024,500,000 | 369,834,820 | 1,618,932,730 | 20,848,377 | 3,872,422,424 | (6,266,563) | 461,616,475 | 8,361,888,263 |
| **Total comprehensive income for the year** | | | | | | | | |
| Net income for the year | - | - | - | - | 1,393,363,722 | - | 125,472,215 | 1,518,835,937 |
| Transfer of revaluation reserve deduction from operations through additional depreciation charges | - | - | (118,968,061) | - | 118,968,061 | - | | - |
| Deferred income tax effect on revaluation reserve charged to operations through additional depreciation | - | - | 35,690,418 | - | - | - | - | 35,690,418 |
| **Transactions with owners** | | | | | | | | |
| Declaration of cash dividend - note 20 | - | - | - | - | (480,131,012) | - | (58,117,681) | (538,248,693) |
| Reacquisition of shares - note 19 | - | - | - | - | - | (185,356,134) | - | (185,356,134) |
| **Total transactions with owners** | - | - | - | - | (480,131,012) | (185,356,134) | (58,117,681) | (723,604,827) |
| **BALANCE AS AT DECEMBER 31, 2019** | **₱2,024,500,000** | **₱369,834,820** | **₱1,535,655,087** | **₱20,848,377** | **₱4,904,623,195** | **(₱191,622,697)** | **₱528,971,009** | **₱9,192,809,791** |

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

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,957,027,259** | ₱1,718,847,737 | ₱1,537,723,657 |
| Adjustments for : | | | |
| Depreciation - notes 10, 11 and 34 | **442,188,038** | 368,917,645 | 319,757,627 |
| Unrealized (gain) loss on financial assets at FVPL - note 5 | **(43,071,659)** | 47,020,829 | (37,321,484) |
| Retirement benefit expense - note 28 | **25,583,642** | 25,321,034 | 14,487,168 |
| Finance costs - note 25 | **52,579,062** | 34,178,845 | 31,460,634 |
| Interest income - note 4 | **(1,639,189)** | (1,334,974) | (1,043,506) |
| Unrealized foreign exchange gain - note 26 | **(31,381,271)** | (6,411,820) | (1,459,337) |
| Income from reversal of allowance for doubtful accounts - note 6 | **-** | (30,589,742) | - |
| Gain on sale of financial assets at FVPL - note 5 | **(47,770,075)** | (32,102,718) | (71,166,680) |
| Gain on sale of property, plant and equipment - notes 10 and 11 | **(1,355,543)** | (30,446,891) | (2,636,014) |
| Dividend income - note 26 | **(48,623,957)** | (40,734,023) | (8,610,501) |
| Retirement benefit income | **-** | - | (2,456,485) |
| Operating income before working capital changes | **2,303,536,307** | 2,052,665,922 | 1,778,735,079 |
| Decrease (increase) in assets: | | | |
| Trade and other receivables | **(33,454,472)** | 3,950,785 | 23,356,261 |
| Inventories | **(162,326,753)** | (284,499,739) | (177,188,754) |
| Prepayments and other current assets | **(61,976,905)** | (6,773,320) | 8,130,571 |
| Real estate projects | **(26,529,269)** | 28,627,414 | (22,060,631) |
| Increase (decrease) in liabilities: | | | |
| Trade and other payables | **193,568,136** | 291,298,464 | 241,575,435 |
| Customers' deposits | **(4,451,069)** | (30,784,877) | (40,570,169) |
| Net cash from operations | **2,208,365,975** | 2,054,484,649 | 1,811,977,792 |
| Proceeds from sale of financial assets at FVPL - note 5 | **292,780,270** | 806,396,445 | 521,334,601 |
| Dividends received | **38,671,481** | 40,734,023 | 8,610,501 |
| Interest received - note 4 | **1,639,189** | 1,334,974 | 1,043,506 |
| Contributions and retirement benefits paid - note 28 | **(27,917,261)** | (40,129,777) | (84,561,459) |
| Income taxes paid | **(365,885,123)** | (288,038,998) | (262,243,932) |
| Additions to financial assets at FVTPL - note 5 | **(439,163,845)** | (896,370,802) | (713,531,925) |
| Net cash from operating activities | **1,708,490,686** | 1,678,410,514 | 1,282,629,084 |

*(Forward)*

**PRYCE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| *(Continued)* | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment - notes 10 and 11 | **16,959,325** | 51,583,572 | 8,737,454 |
| Additions to property, plant and equipment - notes 10 and 11 | **(1,180,093,870)** | (1,666,673,157) | (589,352,628) |
| Advances to contractors and suppliers - note 14 | **(23,810,086)** | - | - |
| Collection of advances to related parties - note 21 | **81,701,438** | - | 29,287 |
| Additional investment properties - note 12 | **-** | - | (5,540,000) |
| Grant of advances to related parties - note 21 | **(600,042)** | - | (131,444,881) |
| Net cash used in investing activities | **(1,105,843,235)** | (1,615,089,585) | (717,570,768) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from availment of short-term debts | **3,646,841,955** | 1,773,740,046 | 600,000,000 |
| Payment of dividends | **(535,415,564)** | (528,368,037) | (67,677,447) |
| Payment of short-term debts | **(3,225,280,392)** | (1,218,661,994) | (825,000,000) |
| Payment of lease liabilities | **(13,755,696)** | - | - |
| Finance costs paid - note 25 | **(48,374,361)** | (34,178,845) | (31,460,634) |
| Acquisition of shares from non-controlling interest | **-** | (15,980,000) | - |
| Acquisition of treasury stocks - note 19 | **(185,356,134)** | (6,266,563) | - |
| Settlement of advances from related parties | **-** | - | (60,470,817) |
| Net cash used in financing activities | **(361,340,192)** | (29,715,393) | (384,608,898) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | **24,410,028** | 6,411,820 | 316,524 |
| **NET INCREASE IN CASH** | **265,717,287** | 40,017,356 | 180,765,942 |
| **CASH** - note 4 | | | |
| At beginning of year | **848,846,339** | 808,828,983 | 628,063,041 |
| At end of year | **₱1,114,563,626** | ₱848,846,339 | ₱808,828,983 |

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

(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 ₱4.94 and ₱5.75 per share as at December 31, 2019 and 2018, respectively.

The Parent Company's registered office address is 17th 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 December 31, 2018, PGI has eight (8) liquefied petroleum gas (LPG) marine-fed terminals and fifty-nine (59) refilling plants of varying storage capacities. As at December 31, 2019, PGI's refilling plants increased to seventy (70) while LPG marine-fed terminals remain at eight (8).

Certain operations of PGI is registered with the Board of Investments (BOI) and entitled to Income Tax Holiday (ITH) provided under Republic Act No. 8479, otherwise known as the Downstream Oil Deregulation Act of 1998 (see Note 31).

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. As at December 31, 2019, OOC has three (3) LPG refilling plants of varying storage capacities.

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

PGI owns 99.62% of the shares issued by OOC. The increase in stock ownership of the Parent Company to PGI for the year ended December 31, 2018 resulted to an increase in % 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. PPhI's registered office address is LGF Skyland Plaza, corner Gil Puyat Avenue and Tindalo Street, Makati City.

Authorization to issue the consolidated financial statements

The consolidated financial statements as at and for the year ended December 31, 2019, including its comparatives as at December 31, 2018, and for each of the three (3) years in the period ended December 31, 2019 were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on June 26, 2020.

## 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). 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 losses 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 December 31are as follows:

| | Ownership and voting interest | |
|---|---|---|
| Name of subsidiary | **2019** | 2018 |
| PGI | **91.35%** | 91.35% |
| OOC | **91.00%** | 91.00% |
| PPhI* | **88.61%** | 88.61% |

** Includes indirect equity ownership of 13.66% in 2019 and 2018.*

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 December 31 are as follows:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **PGI** | **OOC** | **PPhI** | PGI | OOC | PPhI |
| Total current assets | **₱2,510,913,120** | **₱529,122,739** | **₱21,352,916** | ₱2,238,534,547 | ₱183,344,785 | ₱17,511,990 |
| Total noncurrent assets | **7,805,707,656** | **1,355,890,476** | **2,941,249** | 6,736,411,400 | 542,188,507 | 3,863,120 |
| Total assets | **10,316,620,776** | **1,885,013,215** | **24,294,165** | 8,974,945,947 | 725,533,292 | 21,375,110 |
| Current liabilities | **2,402,036,786** | **122,666,851** | **10,545,845** | 1,818,835,532 | 14,963,124 | 8,586,489 |
| Noncurrent liabilities | **725,540,080** | **1,216,093,451** | **2,007,729** | 765,162,894 | 171,498,383 | 1,971,291 |
| Total liabilities | **3,127,576,866** | **1,338,760,302** | **12,553,574** | 2,583,998,426 | 186,461,507 | 10,557,780 |
| Equity | **₱7,189,043,910** | **₱546,252,913** | **₱11,740,591** | ₱6,390,947,521 | ₱539,071,785 | ₱10,817,330 |

The summarized statements of comprehensive income for the years ended December 31 are as follows:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **PGI** | **OOC** | **PPhI** | PGI | OOC | PPhI |
| Revenues | **₱10,300,680,218** | **₱1,814,325,639** | **₱51,022,768** | ₱10,017,735,371 | ₱217,633,660 | ₱44,367,852 |
| Expenses | **(8,431,757,385)** | **(1,804,113,506)** | **(49,703,858)** | (8,414,969,989) | (209,798,012) | (43,119,819) |
| Income tax expense | **(427,059,406)** | **(3,031,005)** | **(395,649)** | (281,321,709) | (2,405,379) | (374,410) |
| | **₱1,441,863,427** | **₱7,181,128** | **₱923,261** | ₱1,321,443,673 | ₱5,430,269 | ₱873,623 |
| Net income attributable to: | | | | | | |
| Equity holders of the Parent Company | **₱1,317,142,240** | **₱6,535,033** | **₱818,533** | ₱1,207,138,795 | ₱4,941,701 | ₱774,526 |
| Non-controlling interest | **124,721,187** | **646,095** | **104,728** | 114,304,878 | 488,568 | 99,097 |
| | **₱1,441,863,427** | **₱7,181,128** | **₱923,261** | ₱1,321,443,673 | ₱5,430,269 | ₱873,623 |

The summarized statements of cash flows for the years ended December 31 are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **PGI** | **OOC** | **PPhI** | PGI | OOC | PPhI |
| Net cash inflows (outflows) from operating activities | **₱1,739,288,350** | **(₱90,136,667)** | **₱3,309,999** | ₱1,379,393,468 | ₱102,227,252 | (₱670,207) |
| Net cash inflows (outflows) from investing activities | **(1,215,733,797)** | **167,256,508** | **(837,891)** | (1,573,884,233) | (20,480,830) | 2,480,845 |
| Net cash inflows (outflows) from financing activities | **(444,512,014)** | **110,000,000** | **-** | 212,216,588 | (100,000,000) | - |
| Net increase (decrease) in cash | **₱79,042,539** | **₱187,119,841** | **₱2,472,108** | ₱17,725,823 | (₱18,253,578) | ₱1,810,638 |

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, 2019.

*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 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 resulted 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 resulted in recognition of depreciation on the right-of-use asset and interest on lease liability in the consolidated statements 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.

The Group adopted PFRS 16 using the modified retrospective approach. Under this approach, the standard is applied retrospectively and the cumulative effect of initial application is recognized as an adjustment to the opening balance of cumulative deficiency of revenues over expenses of the current year. Accordingly, the comparative information presented in 2019 and 2018 consolidated financial statements have not been restated and continued to be reported under PAS 17 and related interpretations..

*Effect of adoption of PFRS 16 on consolidated financial statements*

| | As at January 1, 2019 | | |
|---|---|---|---|
| | As reported | PFRS 16 adjustment | As adjusted |
| Consolidated statement of financial position | | | |
| *Noncurrent assets* | | | |
| Right-of-use assets (net) | ₱- | ₱29,791,056 | ₱29,791,056 |
| Deferred tax assets | 35,174,217 | 22,730,210 | 57,904,427 |
| *Noncurrent liabilities* | | | |
| Lease liability (net of current) | - | 33,779,303 | 33,779,303 |
| Deferred tax liabilities | 714,111,829 | 20,402,671 | 734,514,500 |
| *Equity* | | | |
| Retained earnings | 3,874,083,133 | (1,660,709) | 3,872,422,424 |

The Group has various lease agreements in respect of commercial building/units for commercial space, parcels of land and storage tank. Prior to the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets.

*Leases previously accounted for as operating leases*

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group applied the following practical expedients for leases previously classified as operating leases, on a lease-by-lease basis:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within twelve (12) months from the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as at January 1, 2019 as can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

| | |
|---|---|
| Operating lease commitments as at December 31, 2018 | ₱77,488,517 |
| Less: Commitments relating to short-term and low value leases | 34,522,586 |
| | 42,965,931 |
| Discount using the incremental borrowing rate at January 1, 2019 | (9,168,628) |
| Lease liabilities recognized as at January 1, 2019 | ₱33,779,303 |

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2019

Standards issued but not yet effective up to the date of the Group's 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.

*PFRS 3 (Amendments) Definition of Business.* The amendments clarify that to be considered a business, an integrated 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 output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments will not have a significant impact on the disclosures and amounts recognized on the consolidated financial statements.

*PAS 1(Amendments) Presentation of Financial Statements, and PAS 8 (Amendments) Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material.* The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments will not have a significant impact on the disclosures and amounts recognized on the consolidated financial statements.

*The Conceptual Framework for Financial Reporting.* The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments will not have a significant impact on the disclosures and amounts recognized on consolidated the 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 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 Company 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 unobservable inputs.

All assets and liabilities for which fair value is measured 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 non-recurring measurement, such as investment property.

External valuers are involved for valuation of significant assets. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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 nonfinancial assets are presented in Note 38 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 statement 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 statement 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.

Financial instruments

*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 effective interest (EIR) method.

*Financial assets at amortized cost*

Financial assets are measured at amortized 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 December 31, 2019 and 2018, included under financial assets at amortized cost are the Group's cash, trade and other receivables, and advances to related parties (see Notes 4, 6 and 21).

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 December 31, 2019 and 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 December 31, 2019 and 2018, included in financial liabilities at amortized cost are the Group's trade and other payables (excluding deposit for park internment services and due to government agencies), short-term debts, dividends payable, and lease liabilities (see Notes 15, 17, 20 and 34).

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 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.

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 ECLs. 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 ECLs. Lifetime ECL represents the expected credit losses 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.

The Group has applied the standard's simplified approach on its trade and other receivables and has calculated ECL based on lifetime expected credit losses. 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 assets. The ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

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 trade.

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 for
- 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 trade 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;
- 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.

LPG, cylinders, stoves and 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 which are (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. On the other hand, industrial gases pertain to oxygen, 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.

Inventories are initially measured at cost and subsequently measured at the lower of cost and 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 LPG, cylinders, stoves and accessories, industrial gases, and pharmaceutical products includes excise tax, overhead, freight and handling cost, refilling cost and exclude borrowing costs. On the other hand, cost of real estate projects includes 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 allocation for non-specific cost. And, cost of pharmaceutical products is determined primarily on the basis of first-in, first-out (FIFO) method.

NRV for real estate projects is the estimated selling price less cost to complete and sell. On the other hand, 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 VAT 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 which 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 machinery and office equipment are subsequently measured using revaluation model. 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 |
| Machinery and equipment | 9-10 |
| Oxygen and acetylene cylinders | 15 |
| 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 cylinders, transportation equipment, leasehold improvements, furniture, fixtures and equipment, and construction in-progress are subsequently measured using cost model. 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 |
|---|---|
| LPG cylinders | 20 |
| Leasehold improvements | 5-15 |
| Transportation equipment | 5-6 |
| Furniture, fixtures and equipment | 5 |

Construction in progress (CIP) is stated at cost. This includes cost of construction, 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 used. 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 (CGU) 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 December 31, 2019 and 2018, included in investment properties are the Group's parcels of land, which are held for lease and memorial lots, which are held for capital appreciation.

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 CGUs 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.

None of the Group's short-term debts are used to finance acquisition, construction or production of qualifying assets. Hence, all of the Group's borrowing costs are recognized as expenses in the consolidated statements of comprehensive income in the period incurred.

Leases (*Effective January 1, 2019)*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one (1) of the following applies, (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or (d) there is a substantial change to the asset.

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

The Group leases commercial spaces and lots for its sales centers and refilling plants. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value items. For leases with a term of more than twelve (12) months, the Group recognizes 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, unless the underlying asset is of low value.

*Right-of-use asset*

At the commencement date of the lease (which is when the underlying asset is available for use), the Group recognizes the right-of-use assets. The right-of-use asset is initially measured at cost which consists of the amount of the lease liability plus any initial direct costs incurred and payments made at or prior to commencement date less lease incentives received and estimated costs to be incurred by the lessee for restoration or dismantling of the underlying asset to be suitable to the condition required by the terms and conditions of the lease. Subsequent to commencement date, the right-of-use asset shall be measured at cost less accumulated amortization and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

The right-of-use asset is amortized using the straight-line method over the shorter of its estimated useful life and the lease term as follows:

| | In Years |
|---|---|
| Land | 5 – 25 |
| Commercial space | 3 – 5 |
| LPG storage tank | 20 |

*Lease liabilities*

At the commencement date of the lease, (which is when the underlying asset is available for use), the Group recognizes lease liabilities measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group shall use an incremental borrowing rate.

Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another Standard.

Lease liabilities are subsequently measured to reflect changes in the lease term, exercising of a purchase option (using a revised discount rate), amounts expected to be paid under residual value guarantees (using unchanged discount rate), or future lease payments resulting from a change or a rate used to determine those payments (using an unchanged discount rate). Such remeasurements are treated as adjustments to the right-of-use asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of equipment and other rentals (i.e., those leases that have a lease term of twelve (12) months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight line basis over the lease term.

*Leases with variable lease payments*

The Group recognizes payments for short-term and long-term leases with variable lease payments depending on the future revenue as expenses when incurred over the lease term.

Leases (*Effective prior to January 1, 2019)*

The Group is a party to operating leases as at reporting date as a lessee on its sales centers. 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 under Cost of sales and Operating expenses account in the 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 Parent Company provides for estimated retirement benefits cost required to be paid under R.A. 7641 to qualified employees. The Parent Company has an unfunded, noncontributory retirement plan. On the other hand, PGI 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 Group or of a parent of the Group; and (b) when any of the following conditions apply: (i) an entity and the Group 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 Group; (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 Group or to the parent of the Group; (viii) a person identified in (a) above has significant influence over the Group or is a member of the key management personnel of the Group or of a parent of the Group.

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 APIC 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.

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.

Dividend distribution

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.

Revenue recognition

Revenue is recognized when or as control over distinct goods or services are transferred to customer such as when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits from the goods or services, given that a contract with enforceable rights and obligations exists and, among others, the collectability of consideration is probable taking into account the customer's creditworthiness.

Revenue recognized is the transaction price that reflects the consideration which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

To determine whether to recognize revenue, the Group follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligation; and
(5) recognizing revenue when or as performance obligations are satisfied.

The Group recognizes revenues from the following sources:

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

The Group sells LPG, cylinders, stove and accessories, and industrial gases (a) to the wholesale market, and (b) directly to customers through refilling and terminal plant, and retail outlets.

Revenue from sale to wholesale market is recognized when or as the Group transfers control of the assets at a point in time to the wholesale customers. Invoices for goods transferred are due upon receipt of goods at the wholesaler's specific location. Following delivery, the wholesaler has the primary responsibility on selling the goods and bears the risks of obsolescence and loss in relation to the goods. Trade receivable is recognized by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Revenue from sale to individual customers is recognized when control of the goods has been transferred, which is at the point the customer purchases the goods at refilling, terminal plant and retail outlet. Payment of the transaction price is due immediately when the customer purchases the goods.

*(b) Sale of real estate*

Revenues from sale of real estate arise from (a) sale of memorial lots, and (b) sale of 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.

Real estate sales are recognized only when certain collection threshold was met over which the Group determines that collection of total contract price is reasonably assured. The Group uses historical payment pattern of customers in establishing a percentage of collection threshold.

If the transaction does not qualify as contract revenue under PFRS 15, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue on real estate sales, consideration received from customers are recognized as Customers' Deposits in the statements of financial position. Customers' deposit is recognized at the amounts received from customers and will be subsequently applied against the receivables when the related real estate sale is recognized.

Subsequent cancellations of prior years' real estate sales are recognized in profit or loss in the current year as they occur. The original cost of memorial lots sold is reverted back to inventory while the outstanding receivables at the time of cancellation are reversed. The resulting difference is recognized as part of Other income in the statement of comprehensive income.

*(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) Rendering of ancillary services*

Rendering of ancillary services such as interment and other services is recognized as income when the related services are performed, net of related cost, and presented as part of other income in the 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 and accessories, industrial gases and pharmaceutical products sold is recognized as expense when the related goods are sold.

Cost of real estate projects sold before completion of the development and construction 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. These estimates are reviewed periodically to take into consideration the changes in cost estimates.

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 since the amortization period of the asset that the Group otherwise would have used is one (1) year or less. For contracts with payment terms of more than one (1) year, the mount of commission expensed out and paid to sales agent is amortized over the period of the contract.

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) 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.

*(c) 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.

*(d) Lease commitments*

The Group has entered into various lease agreements for the lease of its sales center offices and LPG tanks as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. In 2018, the Group determined that significant risk and rewards of ownership of the properties were retained by the lessor and accounts for its lease as operating lease.

Starting January 1, 2019, all the existing leases of the Group, except for the leases with lease term of less than twelve (12) months and small value leases, qualified as leases under PFRS 16 which requires recognition of right-of-use asset and lease liability.

The leases are renewable upon mutual agreement by both parties to be covered by a separate and new lease agreement. Accordingly, the renewal option was not considered in the lease term for purposes of the adoption of PFRS 16.

*(e) 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.

<u>Significant accounting estimates and assumptions</u>

*(a) Impairment of trade and other receivables and advances to related parties*

The Group makes use of simplified approach in determining the ECL for trade and other receivables and general approach for advances to related parties.

Simplified approach is used for trade receivables 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 in the case of sale of real estate. 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 receivables other than those arising from trade since these are generally short term in nature.

General approach is used for advances to related parties. 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 Parent Company 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 are impaired as at December 31, 2019 and 2018 as these receivables are highly performing based on the historical credit experience with the debtors, the future economic conditions, and laws governing real estate sales. Likewise, there is no indication that its advances to related parties is impaired as at December 31, 2019 and 2018 since the counterparty has good financial standing and is creditworthy.

The carrying amount of the Group's trade and other receivables as at December 31, 2019 and 2018 amounted to ₱380.32 million and ₱337 million, respectively (see Note 6). Advances to related parties amounted to ₱50.34 million and ₱131.44 million as at December 31, 2019 and 2018, respectively (see Note 21).

*(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 December 31, 2019 and 2018 amounted to ₱1.23 billion 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 December 31, 2019 and 2018 amounted to ₱842.57 million and ₱816.04 million (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 December 31, 2019 and 2018 the carrying amounts of property, plant and equipment, net of carrying amount of land amounting to ₱1.55 billion and ₱1.53 billion, amounted to ₱6.17 billion and ₱5.47 billion, respectively (see Notes 10 and 11).

(d) *Estimating incremental borrowing rate for lease under PFRS 16*

The Group cannot readily determine the interest rate implicit in the lease, hence it uses the incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The incremental borrowing rate used by the Group ranges from 6.98% to 7.53%.

(e) *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 ₱114.91 million and ₱117.25 million as at December 31, 2019 and 2018, respectively (see Note 28).

(f) *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 December 31, 2019 and 2018, the Group recognized deferred tax assets amounting to ₱51.55 million and ₱35.17 million, respectively (see Note 29).

*(f) 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 assessed that goodwill is not impaired as at December 31, 2019 and 2018.

*(g) 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 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.

## 4. CASH

This account as at December 31 consists of:

| | **2019** | 2018 |
|---|---:|---:|
| Cash on hand | **₱156,994,789** | ₱78,764,807 |
| Cash in banks | **957,568,837** | 770,081,532 |
| | **₱1,114,563,626** | ₱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 account in the consolidated statements of comprehensive income in the amount of ₱1.64 million and ₱1.33 million for the years ended December 31, 2019 and 2018, respectively (see Note 26).

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

## 5. FINANCIAL ASSETS AT FVPL

The movement of the account as at December 31 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Cost | | |
| Balance at beginning of year | **₱741,730,894** | ₱619,653,819 |
| Additions | **439,163,845** | 896,370,802 |
| Disposals | **(245,010,195)** | (774,293,727) |
| | **935,884,544** | 741,730,894 |
| Fair value gain | **106,677,413** | 63,605,754 |
| Balance at end of year | **1,042,561,957** | ₱805,336,648 |

The movements of the fair value gain as at December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **₱63,605,754** | ₱110,626,583 |
| Fair value gain (loss) during the year | **43,071,659** | (47,020,829) |
| Balance at end of year | **₱106,677,413** | ₱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 years ended December 31, 2019 and 2018 amounted to ₱292.78 million and ₱806.40 million, which resulted to gain on sale of ₱47.77 million and ₱32.10 million, respectively, and is presented under Other income in the consolidated statements of comprehensive income (see Note 26).

Dividend income earned from financial assets at FVPL is presented under Other income in the consolidated statements of comprehensive income amounting to ₱48.62 million and ₱40.73 million for the years ended December 31, 2019 and 2018, respectively (see Note 26).

## 6. TRADE AND OTHER RECEIVABLES

This account as at December 31 consists of:

| | 2019 | 2018 |
|---|---|---|
| Trade | **₱259,505,079** | ₱194,548,686 |
| Advances to officers and employees | **36,137,019** | 31,795,251 |
| Refundable deposits | **16,548,561** | 10,451,294 |
| Receivables from memorial lot owners | **11,043,255** | 46,499,255 |
| Others | **57,090,706** | 53,715,296 |
| | **₱380,324,620** | ₱337,009,782 |

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.

Advances to officers and employees are, in general, non-interest bearing and collectible through salary deductions.

Refundable deposits mainly represent bonds paid to various suppliers.

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.

Others mainly consist of dividend receivable, receivable from the sale of land and financial assets at FVPL, payments made for 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 year | **₱-** | ₱30,589,742 |
| Reversal of allowance for ECL – note 26 | **-** | (30,589,742) |
| Balance at end of year | **₱-** | ₱- |

The allowance in prior years that were subsequently collected in 2018 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. Income from reversal of allowance for ECL is presented under Other income in the consolidated statements of comprehensive income (see Note 26).

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

## 7. INVENTORIES

This account as at December 31 consists of:

| | **2019** | 2018 |
|---|---|---|
| Finished goods | | |
| LPG, cylinders, stoves and accessories | **₱1,003,882,069** | ₱870,404,756 |
| Industrial gases | **17,831,846** | 12,443,295 |
| Pharmaceutical products | **5,228,166** | 8,009,709 |
| | **1,026,942,081** | 890,857,760 |
| Material and supplies | **114,352,103** | 99,273,973 |
| In-transit LPG | **66,762,587** | 68,510,168 |
| Raw materials | **26,340,687** | 13,428,804 |
| | **₱1,234,397,458** | ₱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, 2019 and 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 December 31, 2019 and 2018.

Inventories charges to cost of sales for the years ended December 31 are as follows (see Note 23):

| | **2019** | 2018 |
|---|---|---|
| LPG, cylinders, stoves and accessories | **₱7,447,788,261** | ₱7,466,077,142 |
| Industrial gases | **229,227,444** | 218,394,676 |
| Pharmaceutical products | **33,854,266** | 29,902,625 |
| | **₱7,710,869,971** | ₱7,714,374,443 |

## 8. REAL ESTATE PROJECTS

Real estate projects as at December 31 consist of:

| | **2019** | 2018 |
|---|---|---|
| Memorial park lots | **₱457,751,164** | ₱438,357,153 |
| Land held for future development | **234,893,608** | 217,163,207 |
| Office units | **57,662,892** | 57,662,892 |
| Subdivision lots | **92,258,627** | 102,853,770 |
| | **₱842,566,291** | ₱816,037,022 |

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

As at December 31, 2019 and 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 ₱28.78 million in 2019 and ₱62.90 million in 2018 (see Note 23).

## 9. PREPAYMENTS AND OTHER CURRENT ASSETS

This account as at December 31 consists of:

| | **2019** | 2018 |
|---|---|---|
| Prepayments | | |
| Rent – note 34 | **₱46,638,335** | ₱25,415,357 |
| Taxes and licenses | **12,051,933** | 12,055,274 |
| Insurance | **11,299,437** | 7,924,419 |
| Maintenance | **287,081** | 655,617 |
| Input VAT, net | **58,682,592** | 21,870,857 |
| Deferred charges | **-** | 1,061,630 |
| Others | **7,242,103** | 6,002,270 |
| | **₱136,201,481** | ₱74,985,424 |

Prepaid rent pertains to advance payment for short-term lease agreements (see Note 34).

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

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 December 31 and the gross carrying amounts and the accumulated depreciation of revalued property, plant and equipment are as follows:

**December 31, 2019**

| | **Net carrying amounts, January 1, 2019** | **Additions** | **Depreciation** | **Reclassification** | **Disposals** | **Net carrying amounts, December 31, 2019** |
|---|---|---|---|---|---|---|
| **Land and land improvements** | **₱1,544,797,277** | **₱25,272,065** | **(₱1,213,612)** | **₱-** | **₱-** | **₱1,568,855,730** |
| **Buildings and structures** | **960,791,085** | **204,956,699** | **(68,174,371)** | **16,773,210** | **(14,349)** | **1,114,332,274** |
| **LPG plant, machinery and equipment** | **2,803,439,038** | **73,140,525** | **(210,290,224)** | **751,816,573** | **(8,483,178)** | **3,409,622,734** |
| **Oxygen and acetylene cylinders** | **255,984,623** | **27,222,112** | **(30,590,060)** | **-** | **(1,000,563)** | **251,616,112** |
| **Office equipment** | **6,592,839** | **-** | **(1,637,000)** | **-** | **-** | **4,955,839** |
| | **₱5,571,604,862** | **₱330,591,401** | **(₱311,905,267)** | **₱768,589,783** | **(₱9,498,090)** | **₱6,349,382,689** |

| | **Revalued cost** | **Accumulated depreciation** | **Net carrying amounts, December 31, 2018** |
|---|---|---|---|
| Land and land improvements | **₱1,589,178,694** | **(₱20,322,964)** | **₱1,568,855,730** |
| Buildings and structures | **1,771,655,143** | **(657,322,869)** | **1,114,332,274** |
| LPG plant, machinery and equipment | **5,847,153,603** | **(2,437,530,869)** | **3,409,622,734** |
| Oxygen and acetylene cylinders | **979,672,893** | **(728,056,781)** | **251,616,112** |
| Office equipment | **73,278,235** | **(68,322,396)** | **4,955,839** |
| | **₱10,260,938,568** | **(₱3,911,555,879)** | **₱6,349,382,689** |

**December 31, 2018**

| | Net carrying amounts, January 1, 2018 | Additions | Depreciation | Reclassification | Disposals | Net carrying amounts, December 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 | 858,865,456 | 19,791,850 | (87,891,604) | 170,025,383 | - | 960,791,085 |
| LPG plant, machinery and equipment | 2,572,892,416 | 72,090,546 | (181,180,746) | 345,521,469 | (5,884,647) | 2,803,439,038 |
| Oxygen and acetylene cylinders | 278,500,848 | 12,762,998 | (31,036,040) | - | (4,243,183) | 255,984,623 |
| Office equipment | 7,411,339 | - | (818,500) | - | - | 6,592,839 |
| | ₱5,192,797,492 | ₱178,336,638 | (₱303,111,390) | ₱515,546,852 | (₱11,964,730) | ₱5,571,604,862 |

| | 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 | 1,569,314,753 | (608,523,668) | 960,791,085 |
| LPG plant, machinery and equipment | 5,153,303,579 | (2,349,864,541) | 2,803,439,038 |
| Oxygen and acetylene cylinders | 962,406,041 | (706,421,418) | 255,984,623 |
| Office equipment | 73,278,235 | (66,685,396) | 6,592,839 |
| | ₱9,322,209,237 | (₱3,750,604,375) | ₱5,571,604,862 |

If revalued property, plant and equipment were carried at cost, the carrying amounts would be as follows:

**December 31, 2019**

| | **Cost** | **Accumulated depreciation** | **Net carrying amounts, December 31, 2019** |
|---|---|---|---|
| **Land and land improvements** | **₱668,172,225** | **(₱13,909,703)** | **₱654,262,522** |
| **Buildings and structures** | **619,996,828** | **(431,912,984)** | **188,083,844** |
| **LPG plant, machinery and equipment** | **5,353,055,443** | **(2,334,774,985)** | **3,018,280,458** |
| **Oxygen and acetylene cylinders** | **584,770,918** | **(508,987,199)** | **75,783,719** |
| **Office equipment** | **55,145,308** | **(52,058,476)** | **3,086,832** |
| | **₱7,281,140,722** | **( ₱3,341,643,347)** | **₱3,939,497,375** |

December 31, 2018

| | Cost | Accumulated depreciation | Net carrying amounts, December 31, 2018 |
|---|---|---|---|
| Land and land improvements | ₱642,900,160 | (₱13,441,794) | ₱629,458,366 |
| Buildings and structures | 587,646,943 | (419,717,354) | 167,929,589 |
| LPG plant, machinery and equipment | 3,791,513,369 | (2,134,669,953) | 1,656,843,416 |
| Oxygen and acetylene cylinders | 566,379,028 | (498,851,714) | 67,527,314 |
| Office equipment | 55,145,308 | (50,716,832) | 4,428,476 |
| | ₱5,643,584,808 | (₱3,117,397,647) | ₱2,526,187,161 |

Depreciation charged to operations for the years ended December 31 was allocated as follows:

| | **2019** | 2018 |
|---|---|---|
| Cost of sales | | |
| LPG, cylinders, stoves and accessories – note 23 | **₱142,605,520** | ₱160,616,023 |
| Industrial gases – note 23 | **34,746,376** | 32,780,468 |
| Operating expenses | | |
| Selling – note 24 | **66,979,186** | 31,309,299 |
| General and administrative – note 24 | **67,574,185** | 78,405,600 |
| | **₱311,905,267** | ₱303,111,390 |

As at December 31, 2019 and 2018, certain property, plant and equipment was disposed for a total consideration of ₱9.75 and ₱39.33 million, resulting into a gain of ₱256,818 and ₱27.37 million, respectively. The gains on disposal were reported under Other income in the consolidated statements of comprehensive income (see Note 26).

The above depreciation includes depreciation on appraisal increase amounting to ₱118.97 million for the years ended December 31, 2019 and 2018, which also represents transfer of realized portion of revaluation reserve to retained earnings (see Note 27).

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 December 31, 2019 and 2018, the revaluation reserves on the property, plant and equipment carried at revalued amount is ₱1.54 million and ₱1.62 million, which is presented under Other comprehensive income and are shown in Revaluation reserves in the consolidated statements of changes in equity.

A portion of the Group's land with a carrying amount of ₱172.62 million is mortgaged to secure payment of short-term debt as at December 31, 2018 (see Note 17). No contractual commitments have been entered into by the Group for acquisition of any property, plant and equipment.

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

As of December 31, 2019 and 2018, there is no restriction on the distribution of the balance to the shareholders.

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

Details of property, plant and equipment are as follows:

**December 31, 2019**

| | Net carrying amounts, January 1, 2019 | Additions | Depreciation | Reclassification | Disposals | Net carrying amounts, December 31, 2019 |
|---|---|---|---|---|---|---|
| **LPG cylinders** | ₱178,137,702 | ₱25,882,132 | (₱21,138,292) | ₱- | (₱422,666) | **₱182,458,876** |
| **Transportation equipment** | 210,120,247 | 219,363,552 | (80,937,096) | - | (4,653,678) | **343,893,025** |
| **Leasehold improvement** | 377,259 | 1,903,626 | (266,012) | - | - | **2,014,873** |
| **Furniture, fixtures and equipment** | 32,768,940 | 39,838,966 | (17,121,195) | - | (459,435) | **55,027,276** |
| **CIP** | 1,000,572,220 | 562,514,193 | - | (768,589,783) | (569,914) | **793,926,716** |
| | **₱1,421,976,368** | **₱849,502,469** | **(₱119,462,595)** | **(₱768,589,783)** | **(₱6,105,693)** | **₱1,377,320,766** |

| | Cost | Accumulated depreciation | Net carrying amounts, December 31, 2019 |
|---|---|---|---|
| **LPG cylinders** | **₱343,992,705** | **(₱161,533,829)** | **₱182,458,876** |
| **Transportation equipment** | **725,871,436** | **(381,978,411)** | **343,893,025** |
| **Leasehold improvement** | **19,303,027** | **(17,288,154)** | **2,014,873** |
| **Furniture, fixtures and equipment** | **188,614,086** | **(133,586,810)** | **55,027,276** |
| **CIP** | **793,926,716** | **-** | **793,926,716** |
| | **₱2,071,707,970** | **(₱694,387,204)** | **₱1,377,320,766** |

December 31, 2018

| | Net carrying amounts, January 1, 2018 | Additions | Depreciation | Reclassification | Disposals | Net carrying amounts, December 31, 2018 |
|---|---|---|---|---|---|---|
| LPG cylinders | ₱122,280,322 | ₱78,296,701 | (₱20,994,522) | ₱- | (₱1,444,799) | ₱178,137,702 |
| Transportation equipment | 78,076,797 | 173,344,903 | (33,574,300) | - | (7,727,153) | 210,120,247 |
| Leasehold improvement | 1,527,114 | 154,850 | (1,304,705) | - | - | 377,259 |
| Furniture, fixtures and equipment | 26,405,906 | 16,295,763 | (9,932,729) | - | - | 32,768,940 |
| CIP | 295,874,769 | 1,220,244,303 | - | (515,546,852) | - | 1,000,572,220 |
| | ₱524,164,908 | ₱1,488,336,520 | (₱65,806,256) | (₱515,546,852) | (₱9,171,952) | ₱1,421,976,368 |

| | Cost | Accumulated depreciation | Net carrying amounts, December 31, 2018 |
|---|---|---|---|
| LPG cylinders | ₱353,450,847 | (₱175,313,145) | ₱178,137,702 |
| 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 | (115,237,883) | 32,768,940 |
| CIP | 1,000,572,220 | - | 1,000,572,220 |
| | ₱2,053,681,392 | (₱631,705,024) | ₱1,421,976,368 |

Depreciation charged to operations was allocated as follows:

| | **2019** | 2018 |
|---|---|---|
| Cost of sales | | |
| LPG, cylinders, stoves and accessories - note 23 | **₱76,671,485** | ₱32,962,967 |
| Industrial gases – note 23 | **3,155,011** | 2,304,655 |
| Operating expenses | | |
| Selling – note 24 | **22,491,732** | 19,913,840 |
| General and administrative - note 24 | **17,144,367** | 10,624,794 |
| | **₱119,462,595** | ₱65,806,256 |

CIP pertains mainly to construction contracts for the site construction and installation of various mounded cylindrical LPG tank storage. This construction contracts amounted to ₱105 million for every 4,177 cubic meters.

As at December 31, 2019 and 2018, certain property, plant and equipment were disposed for a total consideration of ₱7.20 million and ₱12.25 million, respectively, resulting into a gain of ₱1.10 million and ₱3.08 million. The gain on disposal was included in Other income in the profit or loss (see Note 26).

As at December 31, 2019 and 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 - As restated (see Note 20) |
|---|---|---|
| Memorial lots – note 32 | **₱352,301,475** | ₱352,301,475 |
| Land | **37,027,141** | 37,027,141 |
| | **₱389,328,616** | ₱389,328,616 |

There are no movement for the Group's investment properties for the years ended December 31, 2019 and 2018.

On March 31, 2017 and September 4, 2017, PGI, Polytech Industrial Corporation and Site Resources Development Corporation entered into an agreement for the rescission of the Dacion en Pago covering several parcels of memorial lots dated March 11, 2004 and August 3, 2004, respectively. In fulfillment of the agreement, the Group paid ₱5,540,000 thereby rescinding the Dacion en Pago.

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 December 31, 2019 and 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.

As at December 31, 2019 and 2018, the aggregate fair value of the investment properties amounted to ₱847.02 million and ₱703.09 million, respectively (see Note 38).

## 13. GOODWILL

Goodwill as at December 31 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 - As restated (see Note 20) |
|---|---|---|
| Attributable to: | | |
| Investment in subsidiaries by Parent Company | | |
| PGI | **₱68,897,066** | ₱68,897,066 |
| PPhI | **1,771,239** | 1,771,239 |
| | **₱70,668,305** | ₱70,668,305 |

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 ₱68.90 million as at December 31, 2019 and 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.

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 13.66% indirect equity interest (through PGI) in PPhI.

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. OTHER NON-CURRENT ASSET

This pertains to advances to contractors and suppliers which are deposits made to contractors and suppliers for the acquisition of property and equipment. The acquisition of property and equipment will be subsequently reclassified to property and equipment once the title has been transferred to the Group. Advances to contractors and suppliers amounted to ₱44.90 million and ₱21.09 million as at December 31, 2019 and 2018.

In 2019, this was classified as part of Trade and other receivables and was reclassified to Other non-current asset in 2019 for proper classification and presentation. The 2018 balance was also reclassified for consistency in presentation.

## 15. TRADE AND OTHER PAYABLES

This account as at December 31 consists of:

| | **2019** | 2018 |
|---|---|---|
| Accounts payable: | | |
| Trade | **₱934,412,786** | ₱769,587,784 |
| Nontrade | **3,803,045** | 6,706,034 |
| Deposits for park interment services | **105,761,326** | 99,642,455 |
| Due to government agencies | **50,675,217** | 22,404,405 |
| Due to park maintenance fund | **50,229,301** | 46,267,176 |
| Accrued expenses | **20,671,243** | 23,444,917 |
| Cylinder deposits | **15,265,182** | 23,223,845 |
| Reserve fund liability | **5,314,797** | 5,692,628 |
| Deferred income | **3,031,121** | 2,673,456 |
| Others | **23,745,727** | 21,495,560 |
| | **₱1,212,909,745** | ₱1,021,138,260 |

Trade payables pertain 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 government agencies include SSS, HDMF and PHIC payable, withholding taxes and other taxes payable.

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

Details of accrued expenses are as follows:

| | 2019 | 2018 |
|---|---|---|
| Utilities | **₱9,458,028** | ₱13,787,313 |
| Accrued salaries and wages | **5,460,329** | 4,991,774 |
| Other accrued expenses | **5,752,886** | 4,665,830 |
| | **₱20,671,243** | ₱23,444,917 |

Other accrued expenses include accrued rent and professional fees.

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

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

## 16. 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 ₱104.87 million and ₱109.32 million as at December 31, 2019 and 2018, respectively.

## 17. SHORT-TERM DEBTS

Short-term debts consist of:

(a) *PGI*

In 2019, PGI obtained short-term loans denominated in US dollar from Rizal Commercial Banking Corporation (RCBC) amounting to ₱2,325.63 million at interest rates ranging from 4.15% to 4.50% with terms of 118 to 120 days. The Company also obtained short-term loans from United Coconut Planters Bank (UCPB) amounting to ₱911.94 million, of which ₱276.94 million is denominated in US dollar, at interest rates ranging from 4.25% to 7.25% for a term of 60 to 90 days. These short-term loans are unsecured.

In April and November 2019, PGI obtained short-term loans from Robinsons Bank Corporation amounting to ₱299.27 million, of which ₱199.27 million is denominated in US dollar, at interest rates ranging from 3.75% to 7.50% with terms of 90 to 120 days. The short-term loans are unsecured.

In May 2018, PGI obtained a short-term loan amounting to ₱993 million from RCBC with tenure of 180 days which will expire on February 28, 2019. The short-term loan is secured by a real estate mortgage of PGI's industrial lot with a carrying amount of ₱172.62 million and an industrial lot of the subsidiary (see Note 10).

In July 2018, PGI obtained another short-term loan amounting to ₱400 million from Robinsons Bank Corporation with tenure of 180 days. The short-term loan is unsecured.

The average interest rate on local borrowings for the years ended December 31, 2019 and 2018 were 4.80% and 3.60%, respectively.

*(b) OOC*

In 2019, OOC availed loan from UCPB and RCBC amounting to ₱50 million and ₱60 million, respectively, both of which have interest rate of 4.5%. The proceeds were used for additional working capital requirement.

The movement in short-term debts as at December 31 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Beginning balance | **₱905,078,052** | ₱250,000,000 |
| Availment of loans during the year | **3,646,841,955** | 1,773,740,046 |
| Payments during the year | **(3,225,280,392)** | (1,112,986,550) |
| Unrealized foreign exchange gain | **(6,027,546)** | (5,675,444) |
| Ending balance | **₱1,320,612,069** | ₱905,078,052 |

Total interest incurred charged to operations amounted to ₱47.73 million and ₱30.68 million for the years ended December 31, 2019 and 2018, respectively (see Note 25).

## 18. CAPITAL STOCK

Details of this account as at December 31 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 consolidated Class B common stock with Class A common stock as the Parent Company'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 December 31, 2019 and 2018, the Parent Company's stock price amounted to ₱5.06 and ₱5.75 per share, respectively.

As at December 31, 2019 and 2018, the Parent Company has three hundred sixty (360) equity holders.

## 19. 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 December 31, 2019 and 2018, the Group has treasury stocks amounting to 36,598,731 shares with cost of ₱191.62 million and 1,145,600 shares with cost of ₱6.27 million, respectively.

## 20. RETAINED EARNINGS

<u>Dividend declaration</u>

*Parent Company's dividend declaration*

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

In a special meeting held on December 6, 2019, the BOD declared cash dividends amounting to ₱238.55 million equivalent to ₱0.12 per share to stockholders of record as at January 3, 2020 payable on January 29, 2020.

In a special meeting held on December 14, 2018, the BOD also 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 |
|---|---|---|---|---|
| December 6, 2019 | January 29, 2020 | ₱0.12 | **₱238,548,152** | ₱- |
| May 17, 2019 | July 10, 2019 | 0.12 | **241,582,860** | - |
| December 14, 2018 | February 4, 2019 | 0.12 | - | 242,709,696 |
| June 7, 2018 | July 19, 2018 | 0.12 | - | 242,940,000 |
| | | | **₱480,131,012** | ₱485,649,696 |

*PGI's dividend declaration*

In a 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 equivalent to ₱0.12 per share of the outstanding paid up capital of PGI's 2,800,000,000 common shares amounting to ₱336 million payable on May 3, 2019 out of unrestricted retained earnings for cash dividends as of December 31, 2018.

Likewise, in a special meeting of the BOD held on October 30, 2019, the Board approved distribution of a cash dividend to stockholders of record as of October 30, 2019 equivalent to ₱0.12 per share of the outstanding paid up capital of PGI's 2,800,000,000 common shares amounting to ₱336 million payable on November 7, 2019 out of unrestricted retained earnings for cash dividends as of December 31, 2018.

On May 4, 2018, the Board, through the BOD's special meeting, also approved distribution of a cash dividend to stockholders on record as of May 11, 2018 amounting to ₱280 million out of unrestricted retained earnings for cash dividends as of December 31, 2017, payable on May 18, 2018.

In a special meeting of the BOD held on October 23, 2018, the Board approved distribution of a cash dividend to stockholders on record as of November 6, 2018 amounting to ₱280 million out of unrestricted retained earnings for cash dividends as of December 31, 2017, payable on November 12, 2018.

Cash dividend declared and paid in 2019 and 2018:

| Declared | Date paid | Dividend per share | **2019** | 2018 |
|---|---|---|---|---|
| October 30, 2019 | November 7, 2019 | ₱0.12 | **₱336,000,000** | ₱- |
| April 5, 2019 | May 3, 2019 | 0.12 | **336,000,000** | - |
| October 23, 2018 | November 12, 2018 | 0.10 | - | 280,000,000 |
| May 4, 2018 | May 18, 2018 | 0.10 | - | 280,000,000 |
| | | | **672,000,000** | 560,000,000 |

As at December 31, 2019 and 2018, dividends payable amounted to ₱251.49 million and ₱248.65 million, respectively.

Prior period adjustments

The Group made prior period adjustments which resulted to reclassification as follows:

| | As at December 31, 2018 | | |
|---|---|---|---|
| | **As previously stated** | **Adjustment** | **As Restated** |
| Investment properties (a) | ₱115,497,888 | 273,830,728 | ₱389,328,616 |
| Goodwill (b) | 78,148,305 | (7,480,000) | 70,668,305 |
| Retained earnings | (2,620,553,908) | (1,253,529,225) | (3,874,083,133) |
| Fair value gain on real estate properties (a) | (1,030,726,843) | 1,030,726,843 | - |
| Non-controlling interest (c) | (418,068,129) | (43,548,346) | (461,616,475) |

(a) The Group initially measured the transferred real properties at carrying amount at the time of transfer 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.

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 by ₱1.03 billion.

For the year ended December 31, 2019, the management reclassified its fair value gain at the time of transfer amounting to ₱1,030.73 million to retained earnings pursuant to the completion of the rehabilitation plan. The reclassification was applied retrospectively.

(b) In 2018, the Parent Company acquired additional shares from PGI's minority shareholder which resulted to an increase in percentage (%) of ownership from 91.04% to 91.35% for PGI and 90.69% to 91.00% for OOC. Additional goodwill amounting to ₱7.48 million was also recognized as a result of additional equity ownership gained.

However, the Standard requires that goodwill shall only be determined on the acquisition date and re-measurement shall only be done if there is a change in control. The additional shares acquired by the Parent did not result to any change in control. Thus, the Group corrected the goodwill as of December 31, 2018.

(c) The Group did not previously recognize the share of non-controlling interest on OOC's capital stock. Prior period adjustment was made to reflect the amount.

## 21. 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.

| Relationship | Nature of Transaction | Amount of transaction 2019 | Amount of transaction 2018 | Outstanding receivable 2019 | Outstanding receivable 2018 |
|---|---|---|---|---|---|
| **Under common control** | | | | | |
| Pryce Retirement Fund, Inc. (PRFI) | (Payments) | **(₱17,916,261)** | ₱- | **₱49,743,443** | ₱67,660,704 |
| Pryce Plans, Inc. (PPI) | Advances | **600,042** | - | **600,042** | - |
| **Stockholders** | Advances | **(63,784,177)** | - | - | 63,784,177 |
| | | **(₱81,100,396)** | - | **₱50,343,485** | ₱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.

*Key management personnel compensation*

Compensation of the Group's key management personnel are as follows:

| | 2019 | 2018 |
|---|---|---|
| Salaries and other short-term benefits | **₱ 29,861,525** | ₱26,847,611 |
| Retirement benefits | **3,076,187.(** | 2,001,489 |
| | **₱32,937,712** | ₱28,849,100 |

*Material Related Party Transactions (RPT)*

The Group adopted the materiality threshold of ten percent (10%) of its total consolidated assets based on its latest consolidated audited financial statements. All material RPTs shall be approved by at least two-thirds (2/3) vote of the BOD with at least a majority of the independent directors voting to approve the material RPT. The threshold shall apply to material RPTs entered between the Group, its subsidiary or affiliate or any related party.

## 22. REVENUES

The details of this account are as follows:

a) LPG and industrial gases

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| LPG, cylinders, stoves and accessories | | | |
| Content | **₱9,591,501,393** | ₱9,237,094,792 | ₱8,392,827,737 |
| Cylinders | **354,296,305** | 309,613,947 | 253,925,046 |
| Stove and accessories | **53,037,747** | 32,583,234 | 9,865,831 |
| | **9,998,835,445** | 9,579,291,973 | 8,656,618,614 |
| Industrial gases | | | |
| Oxygen | **332,888,719** | 303,656,912 | 281,454,148 |
| Acetylene | **68,576,053** | 67,592,478 | 70,019,774 |
| Other gases | **50,837,305** | 50,999,948 | 40,021,140 |
| | **452,302,077** | 422,249,338 | 391,495,062 |
| | **₱10,451,137,522** | ₱10,001,541,311 | ₱9,048,113,676 |

b) Real estate

Revenue from real estate amounted to ₱128.14 million, ₱227 million and ₱139.41 million for the years ended December 31, 2019, 2018 and 2017, respectively.

c) Pharmaceutical products

Revenue from sale of pharmaceutical products amounted to ₱51.02 million, ₱44.37 million and ₱38.98 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 23. COST OF SALES

a) Cost of sales on LPG and industrial gases for the year ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| LPG, cylinders, stoves and accessories | | | |
| Direct materials | **₱6,864,022,703** | ₱6,825,535,374 | ₱6,180,389,254 |
| Depreciation – notes 10 and 11 | **224,028,903** | 193,578,990 | 175,225,737 |
| Freight and handling | **108,171,047** | 174,340,173 | 170,390,924 |
| Direct labor | **99,071,739** | 75,860,533 | 93,810,494 |
| Outside services | **45,041,785** | 69,670,586 | 32,472,162 |
| Rent and utilities | **30,590,722** | 28,041,821 | 22,014,133 |
| Repairs and maintenance | **27,756,541** | 43,069,114 | 32,975,526 |
| Taxes and licenses | **11,856,691** | 12,674,095 | 10,016,675 |
| Fuel and oil | **11,463,4[illegible]** | 5,278,036 | 7,899,475 |
| Insurance | **4,329,127** | 14,974,297 | 4,371,262 |
| Others | **19,902,031** | 23,054,123 | 22,275,068 |
| | **7,446,234,757** | 7,466,077,142 | 6,751,840,710 |
| Industrial gases | | | |
| Direct materials | **145,590,923** | 130,878,462 | 107,147,316 |
| Depreciation – notes 10 and 11 | **37,901,387** | 35,085,123 | 34,532,187 |
| Direct labor | **15,880,039** | 17,897,106 | 12,513,702 |
| Rent and utilities | **10,392,470** | 7,738,770 | 8,599,129 |
| Outside services | **5,632,015** | 6,160,461 | 5,544,665 |
| Freight and handling | **4,962,852** | 7,855,968 | 4,699,653 |
| Repairs and maintenance | **3,078,295** | 5,399,393 | 6,158,756 |
| Taxes and licenses | **1,128,242** | 1,665,000 | 1,629,913 |
| Insurance | **599,593** | 1,108,545 | 1,247,672 |
| Others | **4,061,628** | 4,605,848 | 12,945,332 |
| | **229,227,444** | 218,394,676 | 195,018,325 |
| | **₱7,675,462,201** | ₱7,684,471,818 | ₱6,946,859,035 |

b) Cost of real estate amounted to ₱28.78 million, ₱62.90 million and ₱33.81 million for the years ended December 31, 2019, 2018 and 2017, 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 years ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Beginning inventory – note 7 | **₱8,009,708** | ₱5,686,286 | ₱2,743,015 |
| Add: Purchases | **31,072,724** | 32,226,048 | 30,023,976 |
| Total good available for sale | **39,082,432** | 37,912,334 | 32,766,991 |
| Less: Ending inventory – note 7 | **5,228,166** | 8,009,709 | 5,686,286 |
| | **₱33,854,266** | ₱29,902,625 | ₱27,080,705 |

## 24. OPERATING EXPENSES

Operating expenses for the years ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Selling expenses: | | | |
| Salaries, wages and benefits | **₱173,796,032** | ₱126,567,196 | ₱102,482,230 |
| Depreciation – notes 10, 11 and 34 | **95,539,196** | 51,223,139 | 28,726,215 |
| Fuel and oil | **37,143,732** | 30,141,070 | 29,257,700 |
| Repairs and maintenance | **35,944,533** | 32,027,170 | 39,101,007 |
| Outside services | **31,708,979** | 52,037,942 | 31,787,961 |
| Travel and transportation | **24,266,982** | 8,554,705 | 13,264,938 |
| Rent and utilities | **23,909,142** | 23,821,355 | 15,782,471 |
| Freight and handling | **21,561,490** | 17,896,515 | 47,636,290 |
| Taxes and licenses | **17,188,444** | 11,425,707 | 6,619,084 |
| Commissions | **16,213,083** | 11,162,777 | 16,725,769 |
| Materials and supplies | **15,717,023** | 8,759,243 | 14,888,170 |
| Advertisements | **7,869,977** | 5,668,691 | 4,236,855 |
| Insurance | **7,490,771** | 4,612,781 | 1,797,231 |
| Representation and entertainment | **1,533,167** | 2,224,168 | 5,277,123 |
| Dues and subscriptions | **1,205,679** | 334,111 | 1,022,687 |
| Professional fees | **907,107** | 765,362 | 777,479 |
| Training and seminars | **405,251** | 592,535 | 1,334,824 |
| Others | **19,681,419** | 17,929,528 | 13,973,306 |
| | **532,082,007** | 405,743,995 | 374,691,340 |
| General and administrative expenses: | | | |
| Salaries, wages and benefits | **₱179,747,974** | ₱115,394,741 | ₱108,418,417 |
| Depreciation – notes 10 and 11 | **84,718,552** | 89,030,394 | 81,273,489 |
| Repairs and maintenance | **67,556,356** | 59,439,084 | 49,852,695 |
| Travel and transportation | **29,521,307** | 20,102,346 | 25,095,673 |
| Retirement benefits expense – note 28 | **25,583,642** | 25,321,034 | 14,487,168 |
| Taxes and licenses | **21,618,997** | 14,055,346 | 8,947,629 |
| Fuel and oil | **16,345,009** | 12,140,415 | 18,405,844 |
| Materials and supplies | **15,370,954** | 17,441,061 | 15,832,300 |
| Rent and utilities | **12,346,731** | 15,044,009 | 19,976,898 |
| Professional fees | **9,500,829** | 9,789,678 | 5,876,457 |
| Dues and subscriptions | **8,408,970** | 7,675,765 | 14,829,547 |
| Insurance | **8,002,246** | 5,644,554 | 6,306,432 |
| Freight and handling | **5,797,493** | 3,402,667 | 12,084,385 |
| Outside services | **5,466,774** | 13,801,903 | 16,791,041 |
| Donation | **4,370,480** | 2,046,837 | 2,050,125 |
| Meetings and conferences | **4,170,484** | 3,529,061 | 5,166,589 |
| Advertisements | **3,566,949** | 1,583,247 | 12,010,102 |
| Representation and entertainment | **2,299,292** | 5,943,813 | 10,923,319 |
| Training and seminars | **687,856** | 819,300 | 2,389,326 |
| Others | **47,851,595** | 50,197,233 | 39,890,944 |
| | **552,932,490** | 472,402,488 | 470,608,380 |
| | **₱1,085,014,497** | ₱878,146,483 | ₱845,299,720 |

Other general and administrative expenses pertain to communications and auxiliary expenses of the Group.

## 25. FINANCE COSTS

Finance costs for the years ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Importations | **₱644,407** | ₱3,494,998 | ₱11,879,042 |
| Debts | | | |
| Short-term – note 17 | **47,729,954** | 30,683,847 | 19,581,592 |
| Lease liability – note 34 | **4,204,701** | - | - |
| | **₱52,579,062** | ₱34,178,845 | ₱31,460,634 |

## 26. OTHER INCOME

Other income for the years ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Dividend income – note 5 | **₱48,623,957** | ₱40,734,023 | ₱8,610,501 |
| Gain on sale of financial assets at FVPL – note 5 | **47,770,075** | 32,102,718 | 71,166,680 |
| Unrealized foreign exchange gain | **31,381,271** | 6,411,820 | 1,459,337 |
| Sale of scrap and junked materials | **16,763,556** | 30,925,879 | 1,951,936 |
| Interment fees | **5,575,640** | 1,925,433 | 2,230,565 |
| Rental income | **3,160,676** | 4,059,031 | 4,226,901 |
| Interest income from banks – note 4 | **1,639,189** | 1,334,974 | 611,927 |
| Gain on sale of property, plant and equipment – notes 10 and 11 | **1,355,543** | 30,446,891 | 2,636,014 |
| Income from reversal of allowance for doubtful accounts – note 6 | **-** | 30,589,742 | - |
| Gain on settlement of debts covered by rehabilitation plan | **-** | - | 60,470,818 |
| Retirement benefits income | **-** | - | 2,456,485 |
| Interest income from real estate sales | **-** | - | 431,579 |
| Others | **3,072,642** | 4,032,704 | 2,151,152 |
| | **₱159,342,549** | ₱182,563,215 | ₱158,403,895 |

## 27. OTHER COMPREHENSIVE INCOME

This account as at December 31 consists of:

| | 2019 | 2018 |
|---|---|---|
| Remeasurement gain on retirement benefits obligation | **₱20,848,377** | ₱20,848,377 |
| Revaluation reserves | | |
| At beginning of year | **1,618,932,730** | 1,702,210,318 |
| Transfer of revaluation reserves deducted from operations through additional depreciation charges – note 10 | **(118,968,061)** | (118,967,983) |
| Deferred income tax effect on revaluation reserves charged to operations through additional depreciation – note 29 | **35,690,418** | 35,690,395 |
| At end of year | **1,535,655,087** | 1,618,932,730 |
| Total other comprehensive income | **₱1,556,503,464** | ₱1,639,781,107 |

There are no changes in the remeasurement gain on retirement benefit obligation for the years ended December 31, 2019 and 2018 (see Note 28).

## 28. RETIREMENT BENEFITS OBLIGATION

PGI maintains a retirement benefits plan covering 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.

On the other hand, the Parent Company provides for estimated retirement benefits cost required to be paid under R.A. 7641 to qualified employees.

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.

The amounts recognized in the consolidated statements of financial position arising from the Group's consolidated obligation in respect of retirement benefits as at December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Present value of defined benefit obligation | **₱238,672,519** | ₱217,227,941 |
| Fair value of plan assets | **(123,758,744)** | (99,980,548) |
| Net retirement benefits obligation | **₱114,913,775** | ₱117,247,393 |

Movements in the present value of consolidated defined benefit obligation for the years ended December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **₱217,227,941** | ₱195,369,927 |
| Current service cost | **18,900,540** | 14,162,088 |
| Interest expense | **12,381,993** | 14,638,055 |
| Benefits paid | **(9,837,955)** | (6,942,129) |
| | **21,444,578** | 21,858,014 |
| Balance at end of year | **₱238,672,519** | ₱217,227,941 |

Movements in the fair value of PGI's plan assets for the years ended December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **₱99,980,548** | ₱63,313,791 |
| Contributions to the fund | **27,917,261** | 40,129,777 |
| Interest income | **5,698,891** | 3,479,109 |
| | **33,616,152** | 43,608,886 |
| Benefits paid | **(9,837,956)** | (6,942,129) |
| Balance at end of year | **₱123,758,744** | ₱99,980,548 |

The retirement benefits expense recognized in the consolidated statements of comprehensive income for the years ended December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Current service cost | **₱18,900,540** | ₱14,162,088 |
| Net interest costs | | |
| Interest expense | **12,381,993** | 14,638,055 |
| Interest income | **(5,698,891)** | (3,479,109) |
| | **₱25,583,642** | ₱25,321,034 |

The retirement benefits expense is included under general and administrative expenses in the consolidated statements of comprehensive income (see Note 24).

The Group did not incur any remeasurement gain (loss) on retirement benefit obligation for the years ended December 31, 2019 and 2018 (see Note 27).

The fair value of PGI's plan assets consists of cash and cash equivalents as at December 31, 2019 and 2018.

The actual return on PGI's plan assets for the years ended December 31, 2019 and 2018 pertains to interest income amounting to ₱5.70 million and ₱3.48 million, respectively.

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 | **7.00%** | 7.00% |

The discount rate, also called the zero yield curve, as at December 31, 2019 and 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.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

| | **Impact on defined benefit obligation** | | |
|---|---|---|---|
| | **Change in assumptions** | **Increase in assumptions** | **Decrease in assumptions** |
| Discount rate | **1%** | **(₱10,028,877)** | **₱8,827,614** |
| Salary increase rate | **1%** | **623,880** | **(563,545)** |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the Group's consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Through its defined benefit retirement plan, the Group is exposed to a number of risks, the most significant of which is as follows:

- Changes in bond yield – A decrease in government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The weighted average duration of the defined benefit obligation for the Parent Company is 8.40 in 2019 and 2018. The weighted average duration of the defined benefit obligation for PGI is 6.70 years in 2019 and 2018.

The expected maturity analysis of the undiscounted retirement obligation as at December 31, 2019 and 2018 is as follows:

| | After 1 year | Between 2-3 years | Between 4-5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|
| Retirement benefits obligation | ₱81,558,527 | ₱13,803,915 | ₱13,469,621 | ₱100,472,200 | **₱209,304,263** |

## 29. INCOME TAX

The components of income tax expense for the years ended December 31 are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Current tax expense | **₱433,447,154** | ₱313,005,665 | ₱266,746,774 |
| Deferred tax expense (benefit) on the origination and reversal of temporary differences | **4,744,168** | 2,868,373 | 19,030,552 |
| | **₱438,191,322** | ₱315,874,038 | ₱285,777,326 |

The reconciliation of the income tax expense computed at the statutory tax rate to the income tax expense as reported in the consolidated statements of comprehensive income is as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Income before tax | **₱1,957,007,251** | ₱1,718,847,737 | ₱1,537,723,657 |
| Income tax expense at 30% | **587,102,175** | 515,654,321 | 461,317,097 |
| Add (deduct) tax effect of the following: | | | |
| Income on BOI-registered activities enjoying ITH | **(149,543,073)** | (230,450,337) | (175,835,967) |
| Nontaxable income | **(32,475,508)** | (25,847,787) | (27,091,363) |
| Gain on sale of financial assets at FVPL | **(5,220,620)** | (2,008,214) | (2,234,997) |
| Unrealized fair value (gain) loss on financial assets at FVPL | **(4,635,337)** | 9,256,118 | (6,001,464) |
| Amortization of deferred tax liability on interest expense capitalized to real estate projects | **(3,059,995)** | - | (3,059,995) |
| Unrealized profit on intercompany sales which remain unsold to third parties | **2,878,199** | - | - |
| Nondeductible expenses | **7,455,063** | 17,187,993 | 2,993,620 |
| Depreciation on appraisal increase | **35,690,418** | 35,690,395 | 35,690,395 |
| Change on unrecognized deferred tax assets | **-** | (3,608,451) | - |
| Reported income tax expense | **₱438,191,322** | ₱315,874,038 | ₱285,777,326 |

The components of deferred tax assets and liabilities accounts in the consolidated statements of financial position are as follows:

| | **2019** | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Retirement benefits obligation | **₱34,474,132** | ₱35,174,217 |
| Lease liabilities | **36,144,279** | - |
| | **₱70,618,411** | ₱35,174,217 |

| | **2019** | 2018 |
|---|---|---|
| Deferred tax liabilities: | | |
| Revaluation increment in property, plant and equipment | **₱658,137,894** | ₱689,340,040 |
| Right-of-use assets | **33,429,982** | - |
| Interest expense capitalized to property, plant and equipment and real estate projects | **15,299,973** | 18,359,969 |
| Unrealized foreign exchange gain | **9,414,381** | 6,411,820 |
| | **₱716,282,230** | ₱714,111,829 |

For the years ended December 31, 2019 and 2018, the Group recognized income tax expense in other comprehensive income amounting to ₱35.69 million which pertains to income tax effect on revaluation reserve charged to operations through additional depreciation (see Note 27).

The Group availed of the itemized deduction for purpose of income tax calculation in 2019 and 2018.

## 30. EARNINGS PER SHARE

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

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Net income attributable to the owners of the Parent Company | **₱1,393,343,714** | ₱1,288,081,156 | ₱1,148,682,457 |
| Weighted average number of common shares | **2,013,756,910** | 2,024,404,534 | 2,024,500,000 |
| | **₱0.692** | ₱0.636 | ₱0.567 |

Weighted average number of common shares as at December 31, 2017 is the same as the Parent Company's outstanding number of shares which is 2,024,500,000 shares. Weighted average number of common shares as at December 31, 2019 and 2018 is computed as follows:

**December 31, 2019**

| | **Outstanding shares** | **Portion of year outstanding** | **Weighted average number of common shares** |
|---|---|---|---|
| As at January 31, 2019 | 2,023,354,400 | 1/12 | 168,612,867 |
| As at February 28, 2019 | 2,019,709,900 | 1/12 | 168,309,158 |
| As at March 31, 2019 | 2,017,834,400 | 1/12 | 168,152,867 |
| As at April 30, 2019 | 2,016,431,100 | 1/12 | 168,035,925 |
| As at May 31, 2019 | 2,014,548,500 | 1/12 | 167,879,042 |
| As at June 30, 2019 | 2,013,226,500 | 1/12 | 167,768,875 |
| As at July 31, 2019 | 2,013,090,500 | 1/12 | 167,757,542 |
| As at August 31, 2019 | 2,012,526,500 | 1/12 | 167,710,542 |
| As at September 30, 2019 | 2,011,295,200 | 1/12 | 167,607,933 |
| As at October 31, 2019 | 2,010,348,069 | 1/12 | 167,529,006 |
| As at November 30, 2019 | 2,008,025,169 | 1/12 | 167,335,431 |
| As at December 31, 2019 | 2,004,692,669 | 1/12 | 167,057,722 |
| | | | **2,013,756,910** |

December 31, 2018

| | Outstanding shares | Portion of year outstanding | Weighted average number of common shares |
|---|---|---|---|
| As at November 29, 2018 | 2,024,500,000 | 11/12 | 1,855,791,667 |
| As at December 31, 2018 | 2,023,354,400 | 1/12 | 168,612,867 |
| | | | 2,024,404,534 |

## 31. INCOME TAX HOLIDAY 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) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum Products<br>(Talisayan, Zamboanga City LPG Terminal with 2,000 MT Capacity of One (1) additional Storage Tank; Purok, Talisayan, Zamboanga City) |
| Registered capacity | One (1) LPG Storage Tank with a Capacity of 2,000 MT |
| ITH entitlement period | 01 July 2019 to 30 June 2024 (5 years without extension) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum Products<br>(Ajuy, Iloilo LPG Terminal with 2,000 MT Capacity of One (1) additional Storage Tank; Brgy. Barrido, Ajuy, Iloilo) |
| Registered capacity | One (1) LPG Storage Tank with a Capacity of 2,000 MT |
| ITH entitlement period | 01 August 2019 to 31 July 2024 (5 years without extension) |

| | |
|---|---|
| Registered activity | Bulk Marketing of Petroleum Products (Ayungon, Negros Oriental LPG Terminal with 2,000 MT Capacity of One (1) additional Storage Tank; Brgy. Iniban, Ayungon, Negros Oriental) |
| Registered capacity | One (1) LPG Storage Tank with a Capacity of 2,000 MT |
| ITH entitlement period | 01 August 2019 to 31 July 2024 (5 years without extension) |

As at December 31, 2019, there are seven (7) terminals and refilling plant operations enjoying ITH. As at December 31, 2018, five (5) of the LPG terminals and refilling plant operations were 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 Company has zero or negative taxable income. The excess of MCIT over RCIT shall be carried forward and credited against RCIT for the three (3) immediately succeeding taxable years. The current income tax expense in 2019 and 2018 as shown in the statements of comprehensive income both represent the RCIT (see Note 29).

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

## 32. REAL ESTATE PROPERTIES TRANSFERRED 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 Bureau of Internal Revenue (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.

The real estate properties transferred by Parent Company to PGI are accounted in the Group's consolidated financial statements as investment properties (see Note 12). These are measured at 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. A portion of the investment properties were transferred to its creditors by way of dacion en pago covered by the rehabilitation plan. As of December 31, 2019 and 2018, its remaining investment properties attributable to transferred real estate amounted to ₱352.30 million.

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 December 31, 2018 which 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 reclassified to retained earnings (see Note 20).

## 33. OPERATING BUSINESS SEGMENTS

The Group's reportable segments consist of: (1) real estate; (2) LPG and industrial gases; and (3) pharmaceutical products, which the Group operates and manages as strategic business units and organize by products and services.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

Segment operating assets consist principally of operating cash, receivables and inventories, net of any allowance for impairment in value, while segment liabilities include all operating liabilities and consist principally of trade payables and other payables.

The Group's segment information is as follows:

| | Real estate | | | LPG and Industrial gases | | | Pharmaceutical products | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| | *(amounts in millions)* | | | | | | | | |
| Revenue from external customers | **₱128** | ₱227 | ₱139 | **₱10,451** | ₱10,002 | ₱9,048 | **₱51** | ₱44 | ₱39 |
| Results | | | | | | | | | |
| Income before tax | **₱699** | ₱619 | ₱816 | **₱1,869** | ₱1,603 | ₱1,409 | **₱1.3** | ₱1.2 | ₱1.1 |
| Income tax expense | **(7)** | (32) | (29) | **(427)** | (281) | (257) | **(0.4)** | (0.4) | (0.3) |
| Net income for the year | **692** | 587 | 787 | **1,442** | 1,322 | 1,152 | **0.9** | 0.8 | 0.8 |
| Other information: | | | | | | | | | |
| Segment operating assets | **₱1,697** | ₱1,533 | ₱1,521 | **₱3,030** | ₱2,422 | ₱2,113 | **₱21** | ₱18 | ₱14 |
| Segment liabilities | **548** | 558 | 517 | **2,525** | 1,834 | 1,028 | **11** | 9 | 10 |
| Capital expenditures | **6** | 4 | 0.1 | **1,081** | 1,663 | 589 | **0.1** | - | - |
| Depreciation | **28** | 31 | 26 | **412** | 338 | 293 | **0.1** | 0.1 | 0.1 |

## 34. LEASES

The Group has entered into various lease agreements for its sales centers, terminals, refilling plants and office units as a lessee.

*Long-term lease agreements*

The Group has entered into various lease agreements with various local companies and individuals for its Visayas and Mindanao operations' sales center offices and lot for its refilling plants for a period ranging from three (3) to twenty (20) years. Monthly rent ranges from ₱8,000 to ₱134,000.

Provision on the renewal or extension of the lease agreements depends upon the mutual agreement of both lessor and lessee.

*Right-of-use Assets*

The reconciliation of right-of-use assets recognized from the aforementioned long-term lease agreements as at December 31, 2019 is as follows:

| | Land | Commercial space/unit | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of year, as previously stated | ₱- | ₱- | ₱- |
| Effect of adoption of PFRS 16 – note 2 | 51,757,803 | - | 51,757,803 |
| Balance at beginning of year, as restated | 51,757,803 | - | 51,757,803 |
| Additions | 17,445,091 | 38,287,776 | 55,732,867 |
| Balance at end of year | 69,202,894 | 38,287,776 | 107,490,670 |
| **Accumulated depreciation** | | | |
| Balance at beginning of year, as restated – note 2 | 21,966,747 | - | 21,966,747 |
| Depreciation | 7,702,005 | 3,118,171 | 10,820,176 |
| Balance at end of year | 29,668,751 | 3,118,171 | 32,786,923 |
| **Carrying amount, December 31, 2019** | **₱39,534,143** | **₱35,169,605** | **₱74,703,747** |

The depreciation of right-of-use assets for the year ended December 31, 2019 is allocated as follows:

| | |
|---|---|
| Cost of sales – Note 23 | **₱4,751,898** |
| Selling expense – Note 24 | **6,068,278** |
| | **₱10,820,176** |

*Lease Liabilities*

The movement in lease liabilities as at December 31, 2019 is as follows:

| | |
|---|---|
| As at January 1, 2019, as previously reported | **₱-** |
| Effect of adoption of PFRS 16 – note 2 | **33,779,303** |
| As at January 1, 2019, as restated | **33,779,303** |
| Additions | **54,958,681** |
| Interest expense – note 25 | **4,204,701** |
| Payments | **(12,981,511)** |
| As at December 31, 2019 | **₱79,961,174** |

Lease liabilities, as shown in the consolidated statements of financial position as at December 31, 2019, consist of:

| | |
|---|---|
| Current | **₱13,616,354** |
| Noncurrent | **66,344,820** |
| | **₱79,961,174** |

Interest expense relating to such leases amounting to ₱2.67 million in 2019 is presented as part of Finance costs under "Other income" in the consolidated statements of comprehensive income (see Note 26).

The Group's future minimum lease payable related to the above leases as at December 31 is as follows:

| | **2019** | 2018 |
|---|---|---|
| Not later than one (1) year | **₱19,010,945** | ₱13,019,774 |
| Later than one year and not later than five (5) years | **56,120,504** | 49,517,110 |
| Later than five (5) years | **32,827,826** | 97,188,518 |
| | **₱107,959,275** | ₱159,725,402 |

*Short-term lease agreements*

The Group has entered into various operating lease agreements for its sales centers and office units with various local companies and individuals for a period of one (1) year renewable thereafter upon mutual agreement of both parties. Monthly rental payments range from ₱4,000 to ₱25,000.

Prepaid rent amounted to ₱46.64 million and ₱25.42 million in 2019 and 2018, respectively (see Note 9).

Total rent incurred for the years ended December 31 is allocated as follows:

| | 2019 | 2018 |
|---|---|---|
| Cost of sales – note 23 | | |
| LPG, cylinders, stoves and accessories | **₱5,598,600** | ₱23,392,425 |
| Industrial gases | **6,730,244** | 3,749,638 |
| Operating expenses – note 24 | | |
| Selling expenses | **13,448,788** | 11,784,924 |
| General and administrative expenses | **2,760,235** | 15,044,009 |
| | **₱28,537,867** | ₱53,970,996 |

Prior to adoption of PFRS 16

In 2018, the Group has entered into various operating lease agreements for its sales centers, terminals, refilling plants and office units with various local companies and individuals for a period of one (1) year renewable thereafter upon mutual agreement of both parties. Monthly rental payments range from ₱12,523 to ₱157,500.

Total rent expense related to the operating leases in 2018 amounted to ₱53.97 million.

## 35. EVENTS AFTER REPORTING PERIOD

Dividend declaration

In a special meeting of the BOD of PGI held on March 31, 2020, the Board approved distribution of a cash dividend to stockholders of record as of April 3, 2020 equivalent to ₱0.12 per share of the outstanding paid up capital of PGI's 2,800,000,000 common shares amounting to ₱336 million paid on April 10, 2020 out of unrestricted retained earnings for cash dividends as of December 31, 2019.

In a meeting held on May 18, 2020, the BOD of the Parent Company also declared cash dividend amounting to ₱238.55 million which is equivalent to ₱0.12 per share to stockholders of record as at June 15, 2020 payable on July 6, 2020.

Impact of COVID-19 pandemic to the Company's operations

In early 2020, the outbreak of a new coronavirus known as COVID-19 has created a global pandemic, which has affected major economies and challenged the capacity of health care systems. In a move to contain the COVID-19 outbreak, on March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed Enhanced Community Quarantine (ECQ) throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. ECQ was likewise imposed in provinces in Visayas and Mindanao as imposed by their respective local government unit. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve. On May 16, 2020, the ECQ was downgraded to Modified Enhanced Community Quarantine (MECQ) in Metro Manila and certain provinces in Visayas and Mindanao, and to General Community Quarantine (GCQ) in most provinces in Visayas and Mindanao. Starting June 1, 2020, GCQ was imposed by the government to Metro Manila and most provinces until June 30, 2020. Most affected areas of operation of the Group are Cebu and Davao.

Due to the aforementioned events, there were disruptions in the regular operations of the Group especially in areas placed under ECQ. However, the Group sustained its operations through implementation of skeletal workforce and work-from-home arrangements. Being a supplier of essential commodity such as LPG and industrial gases, most of the Group's sales centers were operational during ECQ period. LPG sales slightly increased as household members are compelled to stay indoors and cook food at home. Demand for oxygen also increased due to the needs of hospitals and other health care facilities.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not affect the consolidated financial statements of the Group as at and for the year ended December 31, 2019. The government's ECQ only slightly affected the Group's first quarter performance since ECQ was implemented near the end of the quarter (3rd week of March 2020). However, the Group expects the succeeding quarters to be adversely affected by the COVID-19 pandemic. If the pandemic continues throughout the year 2020, the Management expects a decline in total sales volume of around 5% to 10% as compared to 2019.

## 36. 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. Long-term financial investments are managed to generate lasting returns.

The Group's principal financial instruments are composed of cash, trade and other receivables, financial assets at FVPL, trade and other payables (excluding deposit for interment services and due to government agencies), dividends payable, short-term debts and lease liabilities. 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. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity price risk. 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 foreign currency exchange and equity price.

*Foreign currency risk*

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in US dollars (USD). Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. Significant fluctuation in the exchange rates could significantly affect the Group's financial position.

The Group monitors the movement of foreign exchange rates to avoid significant effect on its operations.

The foreign currency denominated monetary assets and liabilities and their translated functional currency equivalents are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **USD** | **Philippine Peso (PHP)** | USD | Philippine Peso (PHP) |
| Asset | | | | |
| Cash | 34,701 | 1,760,868 | 11,495 | 606,062 |
| Liability | | | | |
| Trade payables | 8,034,114 | 407,683,186 | 8,687,491 | 458,039,276 |
| Short-term debts | 21,196,833 | 1,075,612,372 | 13,373,000 | 705,078,502 |
| | 29,230,947 | 1,483,295,559 | 22,060,491 | 1,163,117,778 |
| Net exposure | **(29,196,246)** | **(1,481,534,960)** | (22,048,996) | (1,162,511,716) |

The foreign currency exchange rates used for USD to PHP were ₱50.74 in 2019 and ₱52.72 in 2018. As a result of translating this foreign currency denominated balances, the Group reported a net unrealized foreign currency exchange gain of ₱31.38 million in 2019 and ₱6.41 million in 2018, and is presented as part of Other income account in the consolidated statements of comprehensive income (see Note 26).

Though foreign exchange gains and losses are recognized for such transactions and for translation of monetary assets and liabilities, the Group is periodically monitoring the movements of foreign exchange rates so as not to significantly affect its operations.

*Foreign currency risk sensitivity analysis*

The following table demonstrates the sensitivity to a reasonably possible change in USD to PHP exchange rate, with all other variables held constant, of the Group's cash and trade payables before income tax as at December 31, 2019 and 2018 (due to the changes in the fair value of monetary assets and liabilities).

| | **Appreciation (depreciation) of PHP** | **Effect in income before tax** | **Effect in equity after tax** |
|---|---|---|---|
| **2019** | **1.50** | **(₱43,794,369)** | **(₱30,656,058)** |
| | **1.00** | **(29,196,246)** | **(20,437,372)** |
| | **(1.50)** | **43,794,369** | **30,656,058** |
| | **(1.00)** | **29,196,246** | **20,437,372** |
| 2018 | 1.50 | (₱33,073,494) | (₱23,151,446) |
| | 1.00 | (22,048,996) | (15,434,297) |
| | (1.50) | 33,073,494 | 23,151,446 |
| | (1.00) | 22,048,996 | 15,434,297 |

*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 short-term debts (see Note 17). The impact on the Group's equity is immaterial.

| | Increase (Decrease) in Basis Points | Effect in Income Before Tax | Effect in Equity After Tax |
|---|---|---|---|
| **2019** | **1.00** | **₱132,061,207** | **₱92,442,845** |
| | **0.50** | **66,030,603** | **46,221,422** |
| | **(1.00)** | **(132,061,207)** | **(92,442,845)** |
| | **(0.50)** | **(66,030,603)** | **(46,221,422)** |
| 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 December 31, 2019 and 2018 that are exposed to interest rate risks:

| | Interest rates | Within 1 Year |
|---|---|---|
| **2019** | | |
| **Variable rate** | | |
| **Short-term debts** | **3.60% to 4.80%** | **₱1,320,612,069** |
| 2018 | | |
| Variable rate | | |
| Short-term debts | 3.60% to 4.50% | ₱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 years ended December 31, 2019 and 2018 would increase/decrease by ₱52.13 million and ₱40.27 million, respectively, as a result of the changes in fair value of financial assets at FVPL. Equity as at December 31, 2019 and 2018 would increase/decrease by ₱36.49 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*

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 | 3 |

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.

The table below shows the Group's maximum exposure to credit risk and the credit quality of the Group's financial assets:

| | | **December 31, 2019** | | | |
|---|---|---|---|---|---|
| | | **Basis of Recognizing ECL** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** |
| Cash in banks | (a) | | **₱957,568,837** | **₱-** | **₱957,568,837** |
| Trade receivables | (b) | Lifetime ECL | **259,505,079** | **-** | **259,505,079** |
| Other receivables | (b) | Lifetime ECL | **120,819,541** | **-** | **120,819,541** |
| Advances to related parties | (a) | | **50,343,485** | **-** | **50,343,485** |
| | | | **₱1,388,236,942** | **₱-** | **₱1,388,236,942** |

| | | December 31, 2018 | | | |
|---|---|---|---|---|---|
| | | Basis of Recognizing ECL | Gross carrying amount | Loss allowance | Net carrying amount |
| Cash in banks | (a) | | ₱770,081,532 | ₱- | ₱770,081,532 |
| Trade receivables | (b) | Lifetime ECL | 194,548,686 | - | 194,548,686 |
| Other receivables | (b) | Lifetime ECL | 142,461,096 | - | 142,461,096 |
| Advances to related parties | (a) | | 131,444,881 | - | 131,444,881 |
| | | | ₱1,238,536,195 | ₱- | ₱1,238,536,195 |

(a) Cash in banks and advances to related parties are assessed to have low credit risk at each reporting period. Cash balances are held by reputable banking institutions. Advances to related parties may be offset against subsequent advances from related parties. The identified impairment loss on these financial assets is immaterial, hence no ECL is recognized.

(b) For trade and other receivables, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. The Group determines the expected credit ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical credit losses experienced before December 31, 2019 and 2018. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Trade receivables arising from sale of real estate are covered by Section 4 of R.A. 6552, commonly known as the Maceda Law, where if the buyer fails to pay installments due after grace period of sixty (60) days, the seller may cancel the contract after thirty (30) days from receipt by buyer of notice of cancellation or demand for rescission of contract.

Trade receivables are generally collected within the normal credit terms. Hence, the Group assessed that the effect of computation of ECL on trade receivables would be insignificant. Further, trade receivables arising from sale of real estate are effectively collateralized by memorial lots and the fair value of the memorial lots sold when reacquired is sufficient to cover the outstanding balance of related receivables arising from the sale. Further, allowance was not provided for past due but not impaired trade and other receivables in 2019 and 2018 as amount involve is not significant. In the case of receivables from memorial lot owners, the outstanding receivables are related to customers with high credit standing and no experience of default in the past. Advances to officers and employees may be deducted from the salaries of the officers and employees. Other receivables have low credit risk being short-term in nature. Overall, the counterparties to trade and other receivables had no history of default upon demand of payment, hence, the management assessed that probability of default is remote.

The table below shows the aging analysis of the Group's financial assets:

**December 31, 2019**

| | **Neither past due nor impaired** | **Past due but not impaired** | | | |
|---|---|---|---|---|---|
| | | **Less than 30 days** | **31-60 days** | **61-90 days** | **Total** |
| Cash in banks | **₱957,568,837** | **₱-** | **₱-** | **₱-** | **₱957,568,837** |
| Trade and other receivables | **376,361,302** | **3,239,546** | **412,189** | **311,583** | **380,324,620** |
| Advances to related parties | **50,343,485** | **-** | **-** | **-** | **50,343,485** |
| | **₱1,384,273,624** | **₱3,239,546** | **₱412,189** | **₱311,583** | **₱1,388,236,942** |

December 31, 2018

| | Neither past due nor impaired | Past due but not impaired | | | |
|---|---|---|---|---|---|
| | | Less than 30 days | 31-60 days | 61-90 days | Total |
| Cash in banks | ₱770,081,532 | ₱- | ₱- | ₱- | ₱770,081,532 |
| Trade and other receivables* | 333,014,059 | 2,226,009 | 490,008 | 1,279,706 | 337,009,782 |
| Advances to related parties | 131,444,881 | - | - | - | 131,444,881 |
| | ₱1,234,540,472 | ₱2,226,009 | ₱490,008 | ₱1,279,706 | ₱1,238,536,195 |

The Group does not have impaired financial assets as at December 31, 2019 and 2018.

The expected loss rates are based on the payment profiles over a period of 24 months before December 31, 2019 and 2018 and the corresponding historical credit losses experienced within this period. The historical observed default rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. In 2019 and 2018, the Group's ECL rate is zero for accounts that are current because there has been no experience of loss or default from customers in the past. Moreover, the estimated ECL on past due receivables were deemed immaterial.

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.

Presented in this table is the maturity profile of Group's financial liabilities based on contractual undiscounted payments:

December 31, 2019

| | Within 1 year | Later than 1 year but not more than 5 years | Total |
|---|---|---|---|
| Trade and other payables* | **₱ 1,056,473,202** | **₱-** | **₱1,056,473,202** |
| Short-term debts | **1,320,612,069** | **-** | **1,320,612,069** |
| Dividends payable | **251,486,815** | **-** | **251,486,815** |
| Lease liabilities | **13,616,354** | **66,344,820** | **79,961,174** |
| | **₱2,642,188,440** | **₱66,344,820** | **₱2,708,533,260** |

**Trade and other payables exclude deposit for park internment services amounting to ₱105.76 million and amount payable to government agencies amounting to ₱50.68 million as at December 31, 2019.*

December 31, 2018

| | Within 1 year | Later than 1 year but not more than 5 years | Total |
|---|---|---|---|
| Trade and other payables* | ₱899,091,400 | ₱- | ₱899,091,400 |
| Short-term debts | 905,078,052 | - | 905,078,052 |
| Dividends payable | 248,653,686 | - | 248,653,686 |
| Total | ₱2,052,823,138 | ₱- | ₱2,052,823,138 |

**Trade and other payables exclude deposit for park internment services amounting to ₱99.64 million and amount payable to government agencies amounting to ₱22.40 million as at December 31, 2018.*

## 37. CAPITAL RISK OBJECTIVE AND MANAGEMENT

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 Group's ratio of interest-bearing debt to total capital as at December 31 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total interest-bearing debt (a) | **₱1,320,612,069** | ₱905,078,052 |
| Total equity (b) | **9,193,730,952** | 8,363,548,972 |
| | **₱10,514,343,021** | ₱9,268,627,024 |
| Gearing ratio (a/b) | **14%** | 11% |

The Group's ratio of net interest-bearing debt to total capital as at December 31 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total interest-bearing debt | **₱1,320,612,069** | ₱905,078,052 |
| Less: Cash in banks | **957,568,837** | 770,081,532 |
| Financial assets at FVPL | **1,042,561,957** | 805,336,648 |
| Net interest-bearing debt (a) | **(679,518,725)** | (670,340,128) |
| Total equity | **9,193,730,952** | 8,363,548,972 |
| Net interest-bearing debt and equity (b) | **₱8,514,212,227** | ₱7,693,208,844 |
| Gearing ratio (a/b) | **(7.98%)** | (8.71%) |

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

## 38. 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 at the end of each reporting period, are determined in particular, the valuation technique(s) and inputs used.

| | **Fair value as at December 31** | | Fair value | |
|---|---|---|---|---|
| | **2019** | 2018 | hierarchy | Valuation technique |
| Financial assets at FVPL | **₱1,042,561,957** | ₱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 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 | **₱ 44,975,367** | **₱50,343,485** | ₱107,370,410 | ₱131,444,881 | Level 3 | (c) |
| ***Non-financial asset*** | | | | | | |
| Investment Properties | **847,028,856** | **389,328,616** | 703,088,686 | 389,328,616 | Level 2 | (a) |
| | **₱892,004,223** | **₱439,672,101** | ₱810,459,096 | ₱520,773,497 | | |
| ***Financial liabilities*** | | | | | | |
| Lease liabilities | **₱66,344,820** | **₱66,344,820** | ₱- | ₱- | Level 3 | (c) |

(a)

(b) 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.

(c) Advances to related parties and lease liabilities

| 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 3.83% in 2019 and 6.98% 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.

There has been no transfer from one fair value hierarchy level to another.

*   *   *

**Independent Auditor's Report on Supplementary Schedules**

To the Board of Directors and Stockholders of
**PRYCE CORPORATION AND SUBSIDIARIES**
17th Floor Pryce Center, 1179 Don Chino Roces Avenue
cor. Bagtikan Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **Pryce Corporation and Subsidiaries** (the Group) as at December 31, 2019 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 30, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**Diaz Murillo Dalupan and Company**
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 11, 2020
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022
By:

Elirie S. Arañas
Partner
CPA Certificate No. 0101773
SEC Accreditation No. 1679-A, Group A, effective until May 9, 2021
Tax Identification No. 207-051-549
PTR No. 8147696, January 18, 2020, Makati City
BIR Accreditation No. 08-001911-011-2019, effective until March 27, 2022

June 30, 2020

**Independent Auditor's Report on Components of Financial Soundness Indicators**

To the Board of Directors and Stockholders of
**PRYCE CORPORATION AND SUBSIDIARIES**
17th Floor Pryce Center, 1179 Chino Roces Avenue
cor. Bagtikan Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **Pryce Corporation and Subsidiaries** (the Group) as at December 31, 2019 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 30, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

**Diaz Murillo Dalupan and Company**
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 11, 2020
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022
By:

Elirie S. Arañas
Partner
CPA Certificate No. 0101773
SEC Accreditation No. 1679-A, Group A, effective until May 9, 2021
Tax Identification No. 207-051-549
PTR No. 8147696, January 18, 2020, Makati City
BIR Accreditation No. 08-001911-011-2019, effective until March 27, 2022

June 30, 2020

**PRYCE CORPORATION AND SUBSIDIARIES**
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**
DECEMBER 31, 2019

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE A – FINANCIAL ASSETS**
DECEMBER 31, 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 |
|---|---|---|---|---|
| San Miguel Corp. Series 2-C Preference | ₱5,415,270 | ₱419,683,425 | ₱419,683,425 | ₱- |
| First Philippine Holdings Corp. | 3,057,655 | 210,825,312 | 210,825,312 | - |
| Ginebra San Miguel Inc. | 3,673,565 | 139,595,470 | 139,595,470 | - |
| Global-Estate Resorts, Inc. | 115,893,000 | 139,071,600 | 139,071,600 | - |
| Metro Pacific Investment Corp. | 11,670,000 | 40,611,600 | 40,611,600 | - |
| San Miguel Corp. Sub Series 2-E Preference | 271,250 | 20,886,250 | 20,886,250 | - |
| San Miguel Corp. Sub Series 2-F Preference | 212,630 | 16,117,354 | 16,117,354 | - |
| San Miguel Corp. Sub Series 2-I Preference | 180,030 | 13,538,256 | 13,538,256 | - |
| San Miguel Corp. Sub Series 2-G Preference | 170,000 | 12,920,000 | 12,920,000 | - |
| Global Ferronickel Holdings, Inc. | 6,980,000 | 12,494,200 | 12,494,200 | - |
| San Miguel Corp. Sub Series 2-D Preference | 124,650 | 9,348,750 | 9,348,750 | - |
| Lopez Holdings Corporation | 1,394,000 | 5,171,740 | 5,171,740 | - |
| Philippine National Bank | 59,000 | 2,035,500 | 2,035,500 | - |
| Filinvest Land, Inc. | 175,000 | 262,500 | 262,500 | - |
| Total | ₱149,276,050 | ₱1,042,561,957 | ₱1,042,561,957 | ₱- |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE B - ACCOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS AND EMPLOYEES RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
FOR THE PERIOD ENDED DECEMBER 31, 2019

| Name of Debtor | Debtor designation | Balance at Beginning of the Period | Additions | Amount Collected | Amounts Written off | Current | Non-current | Balance at End of the Period |
|---|---|---|---|---|---|---|---|---|
| 1 . Deguit, Ethelbert | Officer | ₱1,671,880 | ₱1,255,059 | ₱1,342,275 | ₱- | ₱1,342,050 | ₱242,613 | ₱1,584,664 |
| 2 . Sulatre, Alexis | Officer | - | 1,174,103 | 47,837 | - | 191,347 | 934,919 | 1,126,266 |
| 3 . Ascaño, Mark Alf | Officer | 406,979 | 1,052,908 | 465,831 | - | 514,476 | 479,580 | 994,056 |
| 4 . Competente, Roque | Officer | 219,411 | 969,887 | 218,412 | - | 374,758 | 596,128 | 970,886 |
| 5 . Leung, Carmen | Officer | - | 2,032,056 | 1,308,469 | - | 244,007 | 479,580 | 723,587 |
| 6 . Avila, Manuel | Officer | 647,279 | 348,641 | 285,976 | - | 348,474 | 361,470 | 709,944 |
| 7 . Isidro, Joy | Officer | - | 1,682,283 | 1,112,995 | - | 207,244 | 362,045 | 569,289 |
| 8 . Espino, Ethel | Officer | 624,869 | - | 91,576 | - | 91,576 | 441,718 | 533,293 |
| 9 . Eco, Servillano Jr. | Officer | 666,899 | - | 142,402 | - | 239,695 | 284,802 | 524,497 |
| 10 . Lagunay, Jose Jr. | Officer | 510,241 | 292,571 | 312,048 | - | 275,005 | 215,759 | 490,764 |
| 11 . Damo, Leizel | Officer | - | 855,000 | 380,000 | - | 155,347 | 319,653 | 475,000 |
| 12 . Fernandez, Julie Ann | Officer | - | 535,084 | 66,886 | - | 96,804 | 371,394 | 468,199 |
| 13 . Rafisura, Reynante | Staff | - | 483,302 | 64,440 | - | 97,521 | 321,341 | 418,862 |
| 14 . Villegas, Franz Jonas | Officer | 375,425 | 405,322 | 401,365 | - | 288,763 | 90,619 | 379,382 |
| 15 . Veloso, Rolando | Officer | 479,265 | - | 120,821 | - | 157,059 | 201,385 | 358,444 |
| 16 . Paasa, Christy Ann | Staff | 495,768 | - | 163,977 | - | 64,248 | 267,542 | 331,790 |
| 17 . Pingli, Allian | Staff | - | 494,519 | 184,386 | - | 310,133 | - | 310,133 |
| 18 . Perez, Noime | Staff | - | 300,207 | - | - | 300,207 | - | 300,207 |
| 19 . Solano, Jeofrey | Staff | - | 292,798 | 7,500 | - | 285,298 | - | 285,298 |
| 20 . Baco, Michael | Staff | 133,093 | 360,890 | 233,441 | - | 260,542 | - | 260,542 |
| 21 . Cuady IV, Julius | Officer | - | 250,196 | 5,323 | - | 244,873 | - | 244,873 |
| 22 . Mameng, Edenor | Staff | - | 378,747 | 134,187 | - | 244,561 | - | 244,561 |
| 23 . Eslais, Mavi Chiergie | Staff | - | 357,604 | 144,210 | - | 213,394 | - | 213,394 |
| 24 . Demetrio, Yvone | Staff | - | 516,746 | 311,329 | - | 205,418 | - | 205,418 |
| 25 . Matuguina, Ronald | Staff | - | 229,802 | 30,897 | - | 198,904 | - | 198,904 |
| 26 . Eslit, Anthony | Staff | - | 215,721 | 19,025 | - | 196,696 | - | 196,696 |
| 27 . Sangalang, Alexander | Staff | - | 668,489 | 478,215 | - | 190,273 | - | 190,273 |
| 28 . Lumahang, Enrique | Staff | - | 292,096 | 109,496 | - | 182,601 | - | 182,601 |
| 29 . Pineda, Editha | Staff | - | 184,090 | 4,100 | - | 179,990 | - | 179,990 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 30 . | Dagalea, Dennis | Staff | - | 290,286 | 117,180 | - | 173,106 | - | 173,106 |
| 31 . | Cocamas, Ihrick | Staff | - | 624,482 | 451,958 | - | 172,524 | - | 172,524 |
| 32 . | Luzano, Jun Ray | Staff | - | 177,529 | 5,524 | - | 172,005 | - | 172,005 |
| 33 . | Sumalinog, Wilmar | Staff | - | 198,374 | 28,921 | - | 169,452 | - | 169,452 |
| 34 . | Laot, Herminigildo | Staff | - | 155,628 | - | - | 155,628 | - | 155,628 |
| 35 . | Melendez, Archie | Staff | - | 145,294 | 5,342 | - | 139,952 | - | 139,952 |
| 36 . | Seguritan, Rolly | Staff | - | 356,381 | 218,435 | - | 137,947 | - | 137,947 |
| 37 . | Padernal, Kyle | Staff | - | 320,858 | 184,914 | - | 135,944 | - | 135,944 |
| 38 . | Campos, Rogelio | Staff | - | 1,959,037 | 1,829,289 | - | 129,748 | - | 129,748 |
| 39 . | Pacheco, Ariel | Staff | - | 133,308 | 4,825 | - | 128,483 | - | 128,483 |
| 40 . | Aquino, Romulo | Staff | - | 145,745 | 25,864 | - | 119,881 | - | 119,881 |
| 41 . | Pongos, Zachary | Officer | 179,128 | 177,043 | 254,550 | - | 101,620 | - | 101,620 |
| 42 . | Various Employees | Staff | 25,385,014 | 30,799,802 | 31,421,579 | - | 18,057,809 | 6,705,428 | 24,763,237 |
| | **Total** | | **₱31,795,251** | **₱51,111,888** | **₱42,735,800** | **₱-** | **₱27,495,362** | **₱12,675,977** | **₱40,171,338** |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
DECEMBER 31, 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 | ₱1,044,595,068 | ₱- | ₱- | ₱- | ₱1,216,093,451 | ₱1,216,093,451 |
| Pryce Gases, Inc. | Pryce Corporation | 80,600,000 | - | 5,911,072 | - | - | 74,688,928 | 74,688,928 |
| Pryce Gases, Inc. | Pryce Pharmaceuticals, Inc. | 1,971,291 | 636,480 | - | - | - | 2,607,771 | 2,607,771 |
| Pryce Corporation | Pryce Gases, Inc. | 169,400,000 | - | 44,515,074 | - | - | 124,884,926 | 124,884,926 |
| | | ₱423,469,674 | ₱1,045,231,548 | ₱50,426,146 | ₱- | ₱- | ₱1,418,275,076 | ₱1,418,275,076 |

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE D – LONG TERM DEBT**
DECEMBER 31, 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 related statement of financial position |
|---|---|---|---|

**Not Applicable**

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)**
DECEMBER 31, 2019

| Name of related parties | Balance at beginning of period | Balance at end of period |
|---|---|---|

**Not Applicable**

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS**
DECEMBER 31, 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 |
|---|---|---|---|---|

**Not Applicable**

**PRYCE CORPORATION AND SUBSIDIARIES**
**SCHEDULE G– CAPITAL STOCK**
DECEMBER 31, 2019

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related statement of financial position caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common shares | 2,098,000,000 | 2,024,500,000 | - | 91,062,450 | 60,411,516 | 1,873,026,034 |

**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**As of December 31, 2019**

**PRYCE CORPORATION**
**17th Floor Pryce Center, 1179 Chino Roces Avenue Corner Bagtikan Street, Makati City, Philippines**

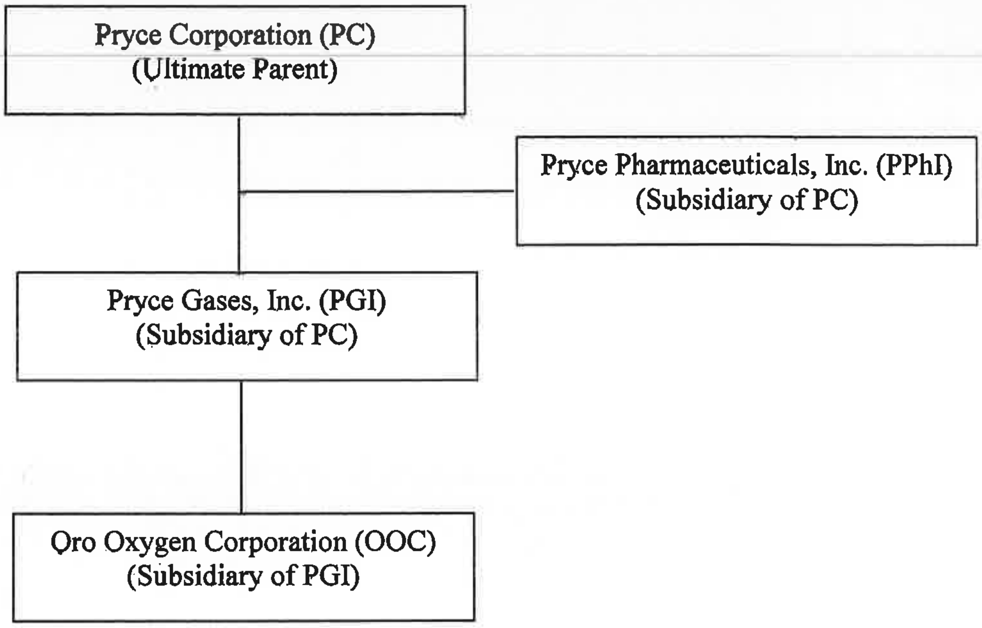
Retained earnings available for declaration of dividend as at December 31, 2019 is computed as follows:

| | | |
|---|---|---|
| **Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning of the year** | | ₱550,094,455 |
| **Add: Net income actually earned/realized during the year** | | |
| Net income during the period closed to Retained Earnings | | 691,527,183 |
| **Less: Non-actual/unrealized income net of tax:** | | |
| Fair value adjustment (mark-to-market gains) | | (15,451,122) |
| **Add: Non-actual losses** | | |
| Depreciation on revaluation increment (after tax) | | 6,407,486 |
| **Net income actually earned during the year** | | **1,232,578,002** |
| **Add (Less):** | | |
| Dividend declarations during the year | (₱480,131,012) | |
| Treasury shares | (191,622,697) | |
| Sub-Total | | (671,753,709) |
| **TOTAL RETAINED EARNINGS, END OF THE YEAR AVAILABLE FOR DIVIDENI** | | **₱560,824,293** |

**PRYCE CORPORATION AND SUBSIDIARIES**
**ANNEX 68 –E SCHEDULE OF FINANCIAL SOUNDESS INDICATORS**
DECEMBER 31, 2019

| Ratio | Formula | Current Year | Prior year |
|---|---|---|---|
| Current ratio | Current assets / Current liabilities | 1.54 | 1.65 |
| Acid test ratio | Quick asset / Current liabilities (Quick assets includes current assets and inventory) | 1.49 | 1.62 |
| Solvency ratio | EBITDA / Total debt (Total debt includes short-term debt, long-term debt and current portion of long-term debt) | 0.621 | 0.657 |
| Debt-to-equity ratio | Total debt / Consolidated stockholders' equity | 0.429 | 0.386 |
| Asset-to-equity ratio | Total assets / Consolidated stockholders' equity | 1.433 | 1.386 |
| Interest rate coverage ratio | EBITDA / Interest expense | 46.630 | 62.084 |
| Return on equity | Net income attributable to equity holders of the company / Average total stockholders' equity | 17.30% | 18.02% |
| Return on assets | Net income after tax / Average total assets | 12.26% | 13.21% |
| Net profit margin | Net income attributable to equity holders of the company / Total consolidated revenue | 14.29% | 13.66% |

**PRYCE CORPORATION AND SUBSIDIARIES**
**ANNEX "A" – MAP OF CONGLOMERATE OR GROUP**
**OF COMPANIES WITHIN WHICH THE COMPANY BELONGS**
DECEMBER 31, 2019



**PRYCE CORPORATION (Parent Company)**
**Aging of Accounts Receivable**
**As of December 31, 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 | **1,761,674** | 347,170 | 500,591 | 510,709 | 403,204 | | | | |
| 2. Low-cost housing | **1,284,761** | 117,705 | 209,923 | 316,799 | 362,429 | 277,905 | | | |
| 3. Memorial Parks | **124,703,018** | 15,414,750 | 16,516,703 | 18,390,593 | 21,690,737 | 25,596,042 | 27,094,193 | | |
| 4. Head Office | **52,562** | 52,562 | | | | | | | |
| Totals | **127,802,015** | **15,932,187** | **17,227,217** | **19,218,101** | **22,456,370** | **25,873,947** | **27,094,193** | - | - |
| Less: Allow. For Doubtful Acct. | | | | | | | | | |
| **Sub Total** | ***127,802,015*** | ***15,932,187*** | ***17,227,217*** | ***19,218,101*** | ***22,456,370*** | ***25,873,947*** | ***27,094,193*** | - | - |
| **b. Non-trade Receivables** | | | | | | | | | |
| Advances to Officers & Employees | **9,193,342** | 2,696,885 | 2,251,420 | 2,086,546 | 2,158,491 | | | | |
| Advances to Suppliers & Contractors | **103,657** | 25,468 | 34,128 | 44,061 | | | | | |
| Others | **7,850,444** | 5,547,564 | 111,215 | 1,095,832 | 1,095,833 | | | | |
| Totals | **17,147,443** | **8,269,917** | **2,396,763** | **3,226,439** | **3,254,324** | - | - | - | - |
| Less: Allow. For Doubtful Acct. | | | | | | | | | - |
| **Sub Total** | ***17,147,443*** | ***8,269,917*** | ***2,396,763*** | ***3,226,439*** | ***3,254,324*** | - | - | - | - |
| **Grand Total** | ***144,949,458*** | ***24,202,104*** | ***19,623,980*** | ***22,444,540*** | ***25,710,694*** | ***25,873,947*** | ***27,094,193*** | - | - |

**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** | 1-3 years |
| | **Condominium Office** | 1-5 years |
| | **Commercial lot** | 1-3 years |
| | **Head Office** | 1-3 months |

# SUSTAINABILITY REPORT for 2019

| Company Information | |
|---|---|
| Name of Organization | Pryce Corporation ("PC or the "Company") |
| Location of Headquarters | 17/F Pryce Center Bldg., 1179 Don Chino Roces Ave., Makati City |
| Location of Operations | Mindanao on real estate business; Nationwide on LPG and Industrial Gas businesses |
| Report Boundary: Legal entities (e.g. subsidiaries) included in this report* | Pryce Corporation (PC) - Parent Company<br>Pryce Gases, Inc. (PGI) – Subsidiary |
| Business Model, including Primary Activities, Brands, Products, and Services | Principal Business: PGI – sale of LPG (cooking gas) to household consumers under the "PRYCEGAS" brand.<br><br>PC – development of memorial parks and sale of memorial lots thereof, under the "PRYCE GARDENS" brand; this business accounts for less than 1% of |
| Reporting Period | Period ended December 31, 2019 |
| Highest Ranking Person responsible for this report | Jose Ma. C. Ordenes<br>Treasurer; Corporate Information and Compliance Officer; SVP |

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## ABOUT THIS REPORT

Pryce Corporation's sustainability report is essentially about how the Company's business growth is sustainable with minimal impact made to the environment while taking into consideration its responsibilities to its stakeholders, employees, and the local communities where it operates. The scope of this report, the standard(s) used in preparing this report, and the Company's nominal classification of its business are discussed in the immediate sections below. This report is a work in progress as it was prepared under circumstantial limitations posed by the government-imposed Enhanced Community Quarantine (ECQ) that began in mid-March of 2020. This ECQ was later changed to General Community Quarantine (GCQ). Still, however, people's mobility and transportation were controlled by LGU's strictures and safety measures against the COVID-19, especially so in the National Capital Region (NCR) where the company conducts its operations among other regions. This is understandable since the NCR is the most densely populated region in the country where COVID-19 cases are most prevalent.

The focus of this report is on the principal business of the Pryce group, which is the importation, distribution, and sale of LPG (cooking gas). This LPG business is handled by Pryce Gases, Inc. (PGI), a subsidiary of the parent company Pryce Corporation (PC). PGI's LPG business accounts for more than 90% of the consolidated revenues of the group. The other business of PGI is the sale of industrial gases, which normally accounts for less than 5% of total revenues.

## MATERIALITY BASIS

There is a wide range of topics on which to report. However, only relevant topics merit inclusion in the report, which means those that can be reasonably considered important for reflecting the Company's economic, environmental, and social impacts, or influencing the decisions of stakeholders. Impact is the effect the Company brings to the economy, the environment, and/or society (positive or negative). A topic may be relevant based on only one of these considerations. In sustainability reporting, "Materiality is the principle that determines which relevant topics are sufficiently important that it is essential to report on them." Topics or items that are herein labeled as "not material" do not mean that they are not material or important to the Company but that for purposes of this report, not all topics are of equal importance, and the emphasis within this report is expected to reflect their relative priority.

## INDUSTRY CLASSIFICATION

Based on the SASB Classification System, LPG and Memorial Park Businesses belong to the “Gas Utilities and Distributors” and “Real Estate” respectively, which are classified under the category “Infrastructure”. However, the Philippine Stock Exchange (PSE) classified the Company’s stocks under “Chemicals” which is for purposes of listing the company’s stock in the stock exchange. Hence, the company’s sustainability report 2020 shall adhere to the “Infrastructure” classification found in the SASB System, as per SEC guidelines.

## INTRODUCTION:

### Corporate Background and its subsidiaries

Pryce Corporation (or “PC” or “the Company”), formerly Pryce Properties Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on Sept 7, 1989, with SEC Registration No. 168063. Its head office is located at the 17th floor, Pryce Center Bldg., 1179 Don Chino Roces, Makati City. PC was established basically as a property holding and real estate development company. The Company’s shares are traded in the Philippine Stock Exchange (PSE). It has a market capitalization of Php 8,099,969,303 based on the last trading price of Php 4.10 per share in May 2020 and outstanding shares of 1,975,602,269. PC, as parent company, is focused on the development of memorial parks and sale of memorial lots and concentrates its operations in Mindanao. In the past, it has developed upscale residential and commercial properties; it was previously engaged in the hotel business (Pryce Plaza) which was closed in December 2016. The Company currently owns and operates thirteen (13) memorial parks in Mindanao’s major and secondary cities namely: Cagayan de Oro City (CDO); Iligan City; Ozamis City; Polanco (near Dipolog City); Zamboanga City; Davao City; including the smaller memorial parks in: Manolo Fortich (actually at the boundary of CDO and Bukidnon); Malaybalay City in Bukidnon; Malita in Davao Occidental; Bislig in Surigao del Sur; Alabel in Saranggani, Pagadian City; and the most recent in Butuan City which was launched in January 2019. The memorial park business accounts for about 1% of total revenues.

Pryce Gases, Inc. (PGI) is PC's subsidiary, which is engaged in the importation and distribution of Liquefied Petroleum Gas (LPG) under the brand name PRYCEGAS. It also produces and sells industrial gases (mainly oxygen and acetylene). PC's ownership in PGI is 91%. PGI has a wholly-owned subsidiary, Oro Oxygen Corporation (OOC) that operates in Luzon and National Capital Region (NCR). It sells and distributes PGI's LPG product (PRYCEGAS) and sells industrial gases that is sourced independently from PGI.

As had been mentioned above, the main source of the Company's income is from the sales of LPG products. It accounts for more than 90% of aggregate revenues. Said LPG products consist of LPG (as content or cooking gas), cylinders, LPG gensets, and gas stoves. The other business of PGI is the sale of industrial gases (mainly oxygen and acetylene), which covers less than 5% of consolidated revenues.

Another Subsidiary of PC is Pryce Pharmaceuticals, Inc (PPhI), a wholesaler and distributor of private branded multi-vitamins and some "over the counter" generic drugs. It was organized to primarily take advantage of the "Generic-Medicines Law". PPhl is a relatively small player in the pharmaceutical business as it was organized in September 2005. PPhI accounts for less than 1% of consolidated revenues.

# ECONOMIC

## ECONOMIC PERFORMANCE

### Direct economic Value Generated and Distributed

| Disclosure | Quantity |
|---|---|
| Direct economic value generated (total revenues) | PhP 10,630,299,264 |
| Direct economic value distributed: | |
| a. Operating costs | PhP 1,085,014,497 |
| b. Employee wages and benefits | Php 380,220,755 |
| c. Payments to local suppliers & some operating costs | Php 289,273,467 |
| d. Dividends given to stockholders and interest payments to loan providers (for 2019, net of tax) | Php 474,942,754 |
| e. Taxes given to government (for 2019) | Php 438,191,322 |

| | |
|---|---|
| f. Investments to community (e.g. donations, CSR) | (complete data not available yet) |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Primary business operation, which is the LPG business. | Customers, Employees, Shareholders, Suppliers | The Company's view is always strategic and long term. It is committed to always identifying means and opportunities for growing the business and to solidify its position in the market in a profitable and sustainable way. |
| **What are the risks/s Identified** | **Which stakeholders are affected?** | **Management approach** |
| Customers' may change its cooking habits or opt for other fuels or sources of energy | Employees, Shareholders, Suppliers | The Company does not see any change in customers' cooking habits with respect to the use of LPG within at least the next decade. However, it continually assesses and/ or identifies developments in the horizon that will affect use/s of LPG. |
| **What are the Opportunity/ies Identified?** | **Which stakeholders are affected?** | **Management approach** |
| Identify areas of alternative & viable uses of LPG as an energy source and possibly partner with investors | Customers, Employees, Shareholders, Suppliers | There are opportunities for investment in low-carbon energy such as LPG, which will be much greater in the emerging economies like the Philippines. Demand for LPG is seen to |

| | | |
|---|---|---|
| for this purpose | | increase in energy in the future, especially since the country still has a low LPG consumption per capita in relation to its ASEAN neighbors. |

**Business Growth**

Over more than a decade, PGI has consistently grown its LPG sales volume from 29,000 metric tons in 2007 to 220,193 metric tons in 2019. And it will continue do so more in the coming years given the following: enormous opportunity for growth in the LPG market (explained below); the country's strong macro-economic fundamentals; growing population; and the country's economic momentum on the back of annual GDP growth of 6.4% [2016-2019]. The effect of the COVID-19 is a temporary setback. The nation's entrepreneurs and workforce are only too eager to take on the challenges of a post-ECQ environment.

Based on the latest data from the Department of Energy, PGI's nationwide market share of 3% in 2007 more than trebled to 11% by 2019. This accomplishment was the result of: aggressive sales efforts; establishment of infrastructure network of marine-import terminals, refilling plants and sales centers, which made the LPG products more accessible and closer to household consumers; and took maximum advantage of the nature of the LPG product whereby customers become virtually tied to an LPG brand.

PGI has a complete integrated infrastructure covering the entire process from importation of LPG up to its distribution, including wholesale and retail sales. The aggregate LPG storage capacity of PGI, as of March 31, 2020, in terms of its sea-fed or marine terminals and inland refilling plants is 34,082 MT which covers the whole country as shown below.

| Type | Region / Location | No. | Capacity (MT) |
|---|---|---|---|
| LPG Marine Terminal | Luzon | 1 | 8,500 |
| | Visayas | 4 | 12,790 |
| | Mindanao | 3 | 9,550 |
| Sub-total: | | 8 | 30,840 |
| | | | |
| LPG Refilling Plant | Luzon | 39 | 1,911 |
| | Visayas | 14 | 530 |
| | Mindanao | 18 | 801 |

| | | | |
|---|---|---|---|
| Sub-total: | | 71 | 3,242 |
| **Total:** | | **79** | **34,082** |

*Climate-related risks and opportunities*

| Governance | Strategy | Risk Management | Metrics & Targets |
|---|---|---|---|
| The Company has a sound and pro-active view on climate-related issues pertaining to LPG. | Identify and assess, on a long- and mid- term basis, climate-related risks and optimize opportunities and enable the company to respond to key uncertainties, including government policies around the world on climate change | Many of the company's marine terminals and inland refilling plants are of earth-mounded construction, which serves as mitigation not only against climate-related events but also against fire hazards. All of PGI's import terminals and refilling plants are covered with the appropriate insurance contracts. | [Metrics and targets currently under evaluation and study] |

Procurement Practices
(see also the topic on Supply Chain Management)

| Disclosure | Quantity |
|---|---|
| Percentage of procurement budget used for significant locations of operations that is spent on local suppliers | Less than 5% |

The bulk of the cost of goods sold is accounted for by LPG, the Company's principal product, which is imported.

| What is the impact and where does it occur? What | Which stakeholders are | Management approach |
|---|---|---|

| | | |
|---|---|---|
| is the organization's involvement in the impact? | affected? | |
| Impact to local suppliers is not significant/material. | Local suppliers | - |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material | Local suppliers | - |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Provide business to local suppliers within any area or region the Company operates | Local suppliers | Management makes every effort to provide business to local suppliers within any area or region the Company operates. |

**ANTI-CORRUPTION:**

Training on Anti-corruption Policies and Procedures

| Disclosure | Quantity |
|---|---|
| Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to | 100% |
| Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to | 100% |
| Percentage of directors and management that have received anti-corruption training | 100% |
| Percentage of employees that have received anti-corruption training | 100% |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|

| | | |
|---|---|---|
| The Company adopted an Anti-Corruption Policy which is found under the Code of Conduct and Business Ethics of the Company Handbook. To aid in its anti-corruption campaign, the Company also implements a "whistle blower" policy. This urges its employees to report and/or provide information on any misconduct, infraction or offenses made, by its officers and employees and members of the company's Board that are illegal, immoral, unethical and detrimental to the interests of the company. | Employees, product dealers, suppliers, customers, shareholders | Management continues to identify and assess areas to prevent corruption not only through punitive measures but also through inspiring and incentivizing manner. |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| At the very least, the Company's image will suffer (particularly employees, product dealers, suppliers) if it is seen that corruption, however small, is tolerated. | Employees, product dealers, suppliers, customers, shareholders | Management regularly reviews its anti-corruption policy, with revisions made as necessary.<br><br>The Board and Senior officers set themselves always as an example of integrity and honesty. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |

| | | |
|---|---|---|
| Aim at enhancing stakeholders confidence and trust so that the Company and Management is recognized as serious in its anti-corruption policy and practices | Employees, product dealers, suppliers, customers, shareholders | The Company is unswerving in its commitment to further improving its anti-corruption policy and practices, including ethics in corporate governance. |

Incidents of corruption

| Disclosure | Quantity (Total) |
|---|---|
| Number of incidents in which directors were removed or disciplined for corruption | 0 incidents |
| Number of incidents in which employees were dismissed or disciplined for corruption | 0 incidents |
| Number of incidents when contracts with business partners were terminated due to incidents of corruption | 0 incidents |

No incidents of corruption in the period under review.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| The Company adopted an Anti-Corruption Policy which is found under the Code of Conduct and Business Ethics of the Company Handbook. To aid in its anti-corruption campaign, the Company also implements a "whistle blower" policy. This urges its employees to report and/or provide | Employees, product dealers, suppliers, customers, shareholders | Management continues to identify and assess areas to prevent corruption not only through punitive measures but also through inspiring and incentivizing manner. |

| | | |
|---|---|---|
| information on any misconduct, infraction or offenses made, by its officers and employees and members of the company's Board that are illegal, immoral, unethical and detrimental to the interests of the company. | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| The Company will suffer (particularly employees, product dealers, suppliers, customers) if it is seen that corruption, however small, is tolerated. | Employees, product dealers, suppliers, customers, shareholders | The Board and Senior officers set themselves always as an example of integrity and honesty.<br><br>Management regularly reviews its anti-corruption policy, with revisions made as necessary. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Aim at enhancing stakeholders confidence and trust so that the Company and Management is recognized as being serious in its anti-corruption policy and practices | Employees, product dealers, suppliers, customers, shareholders | The Company is unswerving in its commitment to further improving its anti-corruption policy and practices, including ethics in corporate governance. |

## ENVIRONMENT

**RESOURCE MANAGEMENT**

Energy consumption within the organization (LPG operations only)

| Disclosure | Quantity |
|---|---|
| Energy consumption (renewable sources) | None used |
| Energy consumption (gasoline) | Not material |
| Energy consumption (LPG) | Nil |
| Energy consumption (diesel) | Not material |
| Energy consumption (electricity) | Not material |

The combined costs of gasoline and diesel consumption are less than 1% of either total revenues or cost of goods sold or operating expenses. The same can be said of electrical consumption, which is to say that this consumption is not intensive in the Company's LPG operations since the marine terminals and refilling plants are essentially used to store imported LPG -- no production/ manufacturing of LPG is involved. Nonetheless, the Company's plant design engineers are only too aware of the importance of reducing energy consumption thru: value engineering, simplified & minimum energy impact designs, and rational selection of equipment & machineries. There is no equipment or machinery in the import terminals and plants that are powered by LPG, except for a select few equipment in certain areas where availability electric power is unstable and/or inadequate.

Reduction of energy consumption (LPG operations only)

| Disclosure | Quantity |
|---|---|
| Energy consumption (renewable sources) | None used |
| Energy consumption (gasoline) | Not material |
| Energy consumption (LPG) | Nil |
| Energy consumption (diesel) | Not material |
| Energy consumption (electricity) | Not material |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|

| | | |
|---|---|---|
| Not material | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material | | |

<u>Water consumption within the organization</u>

| Disclosure | Quantity |
|---|---|
| Water withdrawal | See note below |
| Water consumption | Not material |
| Water recycled and reused | Not material |

Consumption of water in any import terminals and refilling plants is not intensive precisely because these facilities are essentially designed for storing the LPG product – no production or manufacturing of LPG is involved. Collectively, water consumed for regular firefighting drills is not substantial. These facilities use deep-well water sources since water supply from the local water districts do not have adequate water supply and/or water pressure, which is necessary particularly for firefighting means.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as discussed above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |

| | | |
|---|---|---|
| Not material as discussed above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |

Materials used by the organization

| Disclosure | Quantity |
|---|---|
| Materials used by weight or volume | |
| • renewable | Not material |
| • non-renewable | Not material |
| Percentage of recycled input materials used to manufacture the organization's primary products and services | Not material |

The Company does not materially use renewable and non-renewable materials in its business operations.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as discussed above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |

Ecosystem and biodiversity (whether in upland/watershed or coastal/marine)

| Disclosure | Quantity |
|---|---|

| | |
|---|---|
| Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | None |
| Habitat protected or restored | None |
| IUCN Red list species and national conversation list species with habitats in areas affected by operations | None |

The Company's import-marine terminals are located outside protected areas that have very low biodiversity values. Specifically, import marine terminals are situated in areas where there are no coral reefs present. Structures like mooring posts and breasting dolphins, receiving platforms (jetties) and foundations thereof, and submerged pipelines are installed such that no negative impact is caused. These structures may in fact serve as artificial coral reefs where marine life can flourish and become its ecological habitat and sanctuary.

For instance, an updated marine resource assessment conducted in 2019 on the Company's Ayungon teminal (constructed in 1997) in Negros Oriental states that: *"The construction of the mooring/berthing structures and installation of submarine pipelines twenty-two (22) years ago did not cause adverse impact on the marine organisms dwelling in the area, instead it became their refuge and new found habitat".*

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as discussed above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |

**ENVIRONMENTAL IMPACT MANAGEMENT**

Air emissions

GHG

| Disclosure | Quantity |
|---|---|
| Direct (Scope1) GHG Emissions | Not material |
| Energy Indirect (Scope 2) GHG Emissions | Not material |
| Emissions of ozone-depleting substances (ODS) | Not material |

LPG when released is not a highly impacting greenhouse gas. LPG is a clean burning fuel with very few emissions, which is why it is labeled as good transition fuel or bridging fuel in the long-term transition to a truly sustainable global energy system. No LPG is combusted or burned in all marine terminals or refilling plants except for some equipment in few areas where availability of electric power is unstable and/or inadequate.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as noted above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |

Air pollutants

| Disclosure | Quantity |
|---|---|
| $NO_x$ | Not material |
| $So_x$ | Not material |
| Persistent Organic Pollutants (POPs) | Not material |

| | |
|---|---|
| Volatile Organic Compounds (VOCs) | Not material |
| Hazardous Air Pollutants (HAPs) | Not material |
| Particulate Matter (PM) | Not material |

All terminals and refilling plants essentially function to store and contain the LPG product. (The Company's safety policies, regulations, and practices ensure that no accidental burning or combustion of LPG product arises in any of the marine terminals or inland refilling plants.) These facilities have storage tanks that serve to receive the LPG for storage and from which same tanks the LPG is withdrawn either for purposes of transferring the product or refilling LPG cylinders. PGI is not engaged in the production or manufacturing of LPG.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as discussed above | | |
| **What are the risks/s Identified** | **Which stakeholders are affected?** | **Management approach** |
| Not material as discussed above | | |
| **What are the Opportunity/ies Identified?** | **Which stakeholders are affected?** | **Management approach** |
| Not material as discussed above | | |

Solid and Hazardous Wastes

Solid Waste

| Disclosure | Quantity |
|---|---|
| Total solid waste generated | |
| Reusable | - |
| Recyclable | Not material |
| Composted | - |
| Incinerated | - |
| Residuals/Landfilled | - |

The Company's LPG storage and refilling operations do not generate solid wastes that are harmful to the environment or community.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as noted above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |

Hazardous Waste

| Disclosure | Quantity |
|---|---|
| Total weight of hazardous waste generated | None |
| Total weight of hazardous waste transported | None |

No hazardous wastes are generated in the business operations of the Company.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as noted above | | |
| What are the risks/s Identified | Which stakeholders are | Management approach |

| | | |
|---|---|---|
| | affected? | |
| Not material as noted above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |

Effluents

| Disclosure | Quantity |
|---|---|
| Total volume of water discharges | None |
| Percent of wastewater recycled | None |

No harmful effluents were discharge to the environment. All plant operations and terminals utilize DENR-compliant sewage treatment plants.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as noted above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as noted above | | |

**ENVIRONMENTAL COMPLIANCE**

Non-compliance with Environmental Laws and Regulations

| Disclosure | Quantity |
|---|---|
| Total amount of monetary fines for non-compliance with environmental laws and/or regulations | None |
| No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations | None |
| No. of cases resolved through dispute resolution mechanism | None |

Pryce Corporation and its subsidiaries are fully compliant having been issued with an Environmental Compliance Certificate (ECC) issued by the Department of Environment and Natural Resources (DENR) for all its Marine Terminals, Refilling Plants, Industrial Gas plants, and Memorial Parks.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| The Company conforms with all government regulations relative to the environment in so far as all business units: LPG business; Industrial Gas; Memorial Parks | Community, shareholders, LGUs | The Company views environmental compliance is as an essential facet of the business especially with respect to the LPG business in terms of: choosing a location for an import terminal or refilling plant; plant design & equipment selection; and operational & safety issues. |
| **What are the risks/s Identified** | **Which stakeholders are affected?** | **Management approach** |
| May subject the Company to penalties, sanctions, and could even result in stopped operations if violation(s) is grave, wanton or repeated | Community, shareholders, LGUs | Management consistently updates its submissions to the DENR offices for renewal of clearances and permits. It is careful about this matter and takes a proactive stance by anticipating any potential issues |

| | | |
|---|---|---|
| | | or problems that may arise. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| It is always to the Company's benefit in seeing to it that all its business units are compliant with environmental rules and regulations. | Community, shareholders, LGUs | Review and assessment of company practices and policies (written or unwritten) are conducted on a periodic basis or as necessary. |

## SOCIAL

**EMPLOYEE MANAGEMENT**

Employee Hiring, Benefits:

Employee Data

| Disclosure | Quantity |
|---|---|
| Total number of employees* | 3,046 |
| a. Number of female employees | 571 |
| b. Number of Male employees | 2,475 |
| Attrition rate | 3% |
| Ratio of lowest paid employee against minimum wage | 1.05 |

*Regular employees only (probationary and people provided by service contractors are not included)

Employee Benefits

| List of Benefits | Yes/ No | % of Female employees who availed for the year | % of Male employees who availed for the year |
|---|---|---|---|
| SSS | Yes | 15% | 14% |
| Philhealth | Yes | 5% | 8% |

| | | | |
|---|---|---|---|
| Pag-Ibig | Yes | 17% | 17% |
| Parental Leaves | No | - | - |
| Vacation Leaves | Yes | 99% | 96% |
| Sick Leaves | Yes | 29% | 34% |
| Medical benefits (aside from Philhealth) | Yes | 45% | 30% |
| Housing assistance (aside from Pag-Ibig) | No | - | - |
| Retirement Fund (aside from SSS) | Yes | 5% | 4% |
| Further education support | No | - | - |
| Company stock options | No | - | - |
| Telecommuting | No | - | - |
| Flexible working hours | Yes | 32% | 59% |
| (others) | No | - | - |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Motivated employees | Provide quality leadership & management down the line; seek full involvement of the employees so that they contribute to continual improvement of products & services; and make them understand the importance of their contribution and role in the organization |
| What are the risks/s identified | Management approach |
| Unmotivated employees | At the outset, the right person must be hired for the right function. Management also does the following: a) require full involvement of employees; b) reemphasizes the goals; c) make goals & objectives clearer to understand; and d) makes employees understand what is expected of them. |
| What are the Opportunity/ies | Management approach |

| | |
|---|---|
| identified? | |
| Productive employees; creative & good problem solvers; understands the Company's goals & objectives | Review, assess and improve: hiring processes; employee benefits; methods of communicating goals & objectives to employees; and other relevant considerations (e.g., keeping valued employees) |

Employee Training and Development

| Disclosure | Quantity |
|---|---|
| Total training hours provided to employees | |
| a. Female employees | 7,233 hours |
| b. Male employees | 21,410 hours |
| Average training hours provided to employees | |
| a. Female employees | 30 hours/employee |
| b. Male employees | 219 hours/employees |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Proficient employees developed through training & practice, but even more valued and important are those who are dedicated to the job and creative in finding ways to solve problems or improve existing ways of doing things. | The Company does the following in developing people to become dedicated to the job and problem solvers and innovative:<br>• Make clear to the employees what the Company's objectives are;<br>• Recognition & reward of job well done;<br>• Conduct regular review & assessment meetings, which particularly include challenging existing ideas and practices whether in the company or industry;<br>• Providing opportunities for individual growth;<br>• Mentoring & coaching |

| What are the risks/s identified | Management approach |
|---|---|
| Losing valued employees as described above | The Company employs the following in order to retain valuable employees:<br>• Key managers are given challenging work-related goals;<br>• Compensation that shares in company's financial performance;<br>• Competitive benefits package;<br>• Recognition & reward of job well done, specially announced during special company events;<br>• Career growth and advancement with enhanced compensation and benefit package |
| **What are the Opportunity/ies identified?** | **Management approach** |
| Retain valued employees as described above and train & enable them to occupy positions of greater challenge & responsibility. | The Company reviews and re-assesses its current approaches/ policies and identify new ways of further improving the above describe approaches. |

Labor Management Relations

| Disclosure | Quantity |
|---|---|
| % of employees covered with collective bargaining Agreements | 0 |
| Number of consultations conducted with employees concerning employee-related policies | 1 to 2 per month |

The employees are not subject to Collective Bargaining Agreement (CBA) since the parent company and its subsidiaries are non-unionized. Consultations are done with employees on matters that affect their welfare and needs.

| What is the impact and where does it occur? What | Management approach |
|---|---|

| | |
|---|---|
| is the organization's involvement in the impact? | |
| Cooperative working relationship between employees and management | The Company does the following to prevent potential disputes between management and employees:<br>• Maintain open lines of communications;<br>• Fairness & equal treatment;<br>• Set clear work-related goals that are achievable with realistic deadlines;<br>• Provide adequate employee benefits (health care benefit, bonuses, bereavement/ burial subsidy, benefits from retirement fund, food, lodging where necessary, government mandated benefits); |
| What are the risks/s identified | Management approach |
| Disputes between management and employees which might result in disruption of operations | Same approach as described above.<br><br>It must be noted though that in the more than 30 years of the Company's existence, no major dispute has ever occurred between management and employees that has caused disruption of operations or services. |
| What are the Opportunity/ies identified? | Management approach |
| Address immediately potential sources of conflict with management | Continuous assessment and review of the Company's policy and practices on prevention of disputes |

Diversity and Equal Opportunity

| Disclosure | Quantity |
|---|---|
| % of female workers in the workforce | 19% |
| % of male workers in the workforce | 81% |
| Number of employees from indigenous communities and or vulnerable sector* | 17 employees |

**Vulnerable sector includes solo parent, person with disability (PWD), and elderly*

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Business operations of all units (LPG & industrial gas business, memorial parks, and pharmaceutical business) wherein diverse groups of workers and employees are treated equally, who are aware there are common goals to achieve in the interest of the company that will redound to not only to their benefit but to the other stakeholders alike -- shareholders and customers. | The Company gives equal opportunities for career growth and advancement to all workers and employees irrespective of his/her status in life, gender, religion, amount of education, and age. |
| **What are the risks/s identified** | **Management approach** |
| Unequal treatment or workplace discrimination | Career growth and advancement is based on merit and the capability to contribute to the Company's objectives and add value to products or services. |
| **What are the Opportunity/ies identified?** | **Management approach** |
| Recognize each employee's unique contribution and encourage their participation on all matters that affect not only the Company but their welfare and employment as well | Continuous assessment and review of the Company's policy and practices on equality and diversity. |

**Workplace Conditions, Labor Standards, and Human Rights**

Occupational Health and Safety

| Disclosure | Quantity |
|---|---|
| Safe Man-hours | 6,258,677 man-hours |
| No. of work-related injuries | Not material [1 only, a minor injury] |
| No. of work related fatalities | 0 |
| No. of work related ill-health | Not material [1 only, a minor health issue] |
| No. of safety drills | At least 230 |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| The Company has business units (LPG & industrial gas business, memorial parks, pharmaceutical business) wherein employees are fit to work in a safe-work environment. | Management ensures that policies on employees' welfare, health, and safe work environment are backed by firm implementation of rules and equal treatment. |
| **What are the risks/s identified** | **Management approach** |
| In the Company's LPG facilities, there is the potential of fire hazard to workers and employees. | The employees are provided the following: continuous training & education on safety practices; safety paraphernalia; further, the facilities they work in contain adequate firefighting devices and equipment, which are compliant with recognized fire safety standards. Strict implementation of safety rules is ensured, which is complemented by punitive and incentivizing measures to ensure enforcement. |

| What are the Opportunity/ies identified? | Management approach |
|---|---|
| A secure and safe working environment for motivated employees | Employees are encouraged to engage management in addressing issues affecting their work places with respect to their wellbeing and safety. |

Labor Laws and Human Rights (forced or child labor)

| Disclosure | Quantity |
|---|---|
| No. of legal actions or employee grievances involving forced or child labor | none |

This topic is not material as the Company values human freedom & dignity and abides by all Philippine laws on labor and is totally against forced or child labor, hence no legal actions or employee grievances involving forced or child labor has ever occurred.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management approach |
|---|---|---|
| Not material as discussed above | | |
| What are the risks/s Identified | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management approach |
| Not material as discussed above | | |

**SUPPLY CHAIN MANAGEMENT (and RELATIONSHIP WITH SUPPLIERS)**

The Company does not have a formal accreditation policy. However, on ordinary transactions (routine, small-value or repeat purchases), new suppliers may be included subject to standard mode of canvassing and basic / normal purchasing criteria (e.g., right price, compliance to specifications, capability to deliver on time).

On major transactions of large-volume purchases or large projects, an entrant vendor or contractor is subjected to the following criteria:

i. Technical capability to deliver or perform based on the specifications in the purchase order or project contract;
ii. Timely delivery of the volume requirement or completion of the scope of works on time;
iii. Has the financial resources to deliver on the order or project commitment;
iv. Has a satisfactory track record with other customers/ clients.

The Company has mutually beneficial relationships with certain suppliers and contractors who are reputable and recognized in the industry. These business relationships have been established over a considerable period that is based on trust -- albeit always on an arms-length basis. This arrangement has the following advantages:

a) Increased interaction that leads to less incidents or issues of errors or poor performance;
b) Increased efficiency and communication lead to better understanding of the Company's market, business, and business processes;
c) Interactive process of continual improvement of both products and services

Sustainability topics below when considering a supplier:

| Topic | Yes/ No | |
|---|---|---|
| Environmental performance | Yes | The Company is not aware of any supplier's or contractor's violations of laws on environmental protection, forced or child labor, human rights protection, bribery & corruption. A discovered serious violation could mean blacklisting and/or stoppage of purchases or cancellation of contract when lawfully warranted or allowed by contract. |
| Forced labor | Yes | |
| Child labor | Yes | |
| Human rights | Yes | |
| Bribery & corruption | Yes | |

| What is the impact and where does it occur? What is the organization's | Management approach |
|---|---|

| | |
|---|---|
| involvement in the impact? | |
| The Company's customers benefits from a stable supply of LPG (cooking gas) nationwide, which is competitively priced. | The Company has a complete integrated infrastructure that covers the entire process from importation of LPG up to its distribution, including wholesale and retail sales. The Company imports LPG from Asian suppliers which transport the same via marine carrier to any schedule-appointed import terminals that are strategically located across Luzon, Visayas, and Mindanao regions. From said terminal, the LPG is transferred to lorries (trucks) that deliver the same to Company-owned refilling plants. Private dealers have their cylinders refilled with LPG at such refilling plants (or marine terminals). LPG (contained in said cylinders) is sold to household consumers through dealers or Company-owned sales centers. This network of marine terminals, refilling plants, sales centers, private dealers and outlets assures the Company's customers of a stable supply of LPG. |
| What are the risks/s identified | Management approach |
| Supply disruption of LPG resulting in inability to meet customers' demand and satisfy the same; loss in revenue & income. | Contracting of imported supply of LPG at a negotiated price, over a desired period to optimize inventory levels, ensures a safe buffer stock and mitigates against uncertainties of price volatility. |
| What are the Opportunity/ies identified? | Management approach |
| Market demand for LPG continues to grow on the back of the country's low LPG consumption per capita and bolstered by strong household incomes brought about by a continually growing economy over the last decade. | In response to growth in market demand for LPG, the Company not only expanded the storage capacities of its marine terminals and refilling plants in recent years but continues to put up refilling plants and sales centers in various locations in the country thereby making its LPG product much closer and accessible to household consumers. |

**RELATIONSHIP WITH COMMUNITY**

Significant Impacts on Local Communities

| Operations with significant impact on local communities | Location | Vulnerable groups | Does the operation have impact on indigenous peoples? (Yes/ No) | Collective or individual rights have been identified that is of particular concern to the community | Mitigating measures (if negative) or enhancement measures (if positive) |
|---|---|---|---|---|---|
| LPG operations – the primary business | The Company's LPG business operates nationwide (Luzon, Visayas & Mindanao) in strategic areas so that the LPG (cooking gas) is made accessible to the household consumers | No vulnerable groups are affected negatively | No significant impact on indigenous people since the Company's business units are located in the cities or urbanized locations | The putting up of LPG terminals, plants, or sales centers provides employment to the locality thereby addressing the people's right to livelihood.<br><br>In certain areas in Visayas or Mindanao where use of charcoal or firewood (that can be harmful to health) exists, the households are provided with the option of clean, safe & convenient use of LPG. | No negative impact, hence no mitigating measures |

| Certificates | Quantity | Units |
|---|---|---|
| FPIC process is still ongoing | - | - |
| CP secured | - | - |

These items are not relevant because Company's LPG businesses are located in the cities or urbanized locations.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| The putting up of LPG terminals, plants, or sales centers in a locality results in providing employment to the residents thereof.<br><br>In certain areas in Visayas or Mindanao where use of kerosene or charcoal or firewood (that can be harmful to health) exists, the households are provided with the option of clean, safe & convenient use of LPG. | Management is much aware of these positive impacts to a community(ies), while generating revenues for the Company at the same time. This is one reason, among others, that encourages the Company to expand its business. |
| What are the risks/s identified | Management approach |
| A community leader or certain residents may oppose/ resist the LPG facility that is to be constructed. | This risk is avoided by observing / studying the locality's zoning ordinance and choosing the appropriate/ viable area for the LPG facility. By experience, this risk is low since people are commonly familiar with LPG as a fuel for cooking and are aware of how to use it safely. |
| What are the Opportunity/ies identified? | Management approach |
| Generating revenues and income for the Company | Same as above |

**CUSTOMER MANAGEMENT**

*Customer Satisfaction*

| Disclosure | Score | Did a third party conduct the customer satisfaction study (Y/N)? |
|---|---|---|
| Customer satisfaction | - | No |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Customer satisfaction is an important element to customer retention with respect to LPG products, especially since the Company operates in an industry where competition is stiff. | The sales operations people stay close to their dealers and consumers whether to obtain helpful information (for marketing or sales purposes) and/or address complaints – a key ingredient in knowing and understanding the customers. |
| **What are the risks/s identified** | **Management approach** |
| Customers could be lost to competition due inconsistency in delivery, product unavailability, unanswered complaints; or the competition offers a better service or product. | Important areas to management in achieving customer satisfaction are: Product availability & proximity; Prompt response to complaints/ queries; and Product innovation. Management ensures that these things are done right and thus solidify the customer base. |
| **What are the Opportunity/ies Identified?** | **Management approach** |
| The Company also has to be keen on what the competition is doing and what are the relative strengths and weaknesses of the competitor(s). | Knowing the competitors' strength and weaknesses in relation to the Company's resources and its position in the market gives management the latitude on when to react and how. |

*Health and Safety*

| Disclosure | Quantity | Units |
|---|---|---|
| Number of substantiated complaints on product or service health and safety | none | - |
| Number of complaints addressed | Not material | - |

As had been explained above, and in another section of this report, people are commonly familiar with LPG as a convenient fuel for cooking and are aware of how to use it safely. Moreover, it is a clean burning fuel with very little carbon emissions.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Not material | |
| What are the risks/s identified | Management approach |
| Not material | |
| What are the Opportunity/ies Identified? | Management approach |
| Not material | |

*<u>Marketing and Labelling</u>*

| Disclosure | Quantity | Units |
|---|---|---|
| Number of substantiated complaints on marketing and labelling | none | - |
| Number of complaints addressed | Not material | - |

The Company is very much capable in assuring its customers of a stable supply of LPG products (cooking gas, cylinders, stoves & accessories) given its integrated and complete infrastructure of import terminals, refilling plants, sales centers, and accredited dealers which have made said products very accessible to the household consumers. The design and labeling of the LPG cylinder is more than adequate with respect to the government's requirements of product standards.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| Not material | |
| What are the risks/s Identified | Management approach |
| Not material | |
| What are the Opportunity/ies Identified? | Management approach |
| Not material | |

*Customer Privacy*

| Disclosure | Quantity | Units |
|---|---|---|
| Number of substantiated complaints on customer privacy | none | - |
| No. of complaints addressed | none | - |
| No. of customers, users, and account holders whose information is used for secondary purposes | none | - |

The Company subscribes to the tenets and requirements of the Data Privacy Act in relation to customer privacy. No substantiated complaints occurred on customer privacy during the period under review.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| This is related to the topic below on Data Security, please see responses below. | |
| What are the risks/s Identified | Management approach |
| This is related to the topic below on Data Security, please see responses below. | |
| What are the Opportunity/ies Identified? | Management approach |

| |
|---|
| This is related to the topic below on Data Security, please see responses below. |

DATA SECURITY

| Disclosure | Quantity |
|---|---|
| No. of data breaches, including leaks, thefts and losses of data | - |

The Company is not aware of any data breaches, including leaks, thefts and losses of data that were committed by its employees or other entities.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management approach |
|---|---|
| No data security complaints were noted during the period under review. There is a secured data management that is being implemented. | There is continuing review of data management and protection practices. |
| **What are the risks/s Identified** | **Management approach** |
| The Company may be at risk for breach of data. | There shall be continuing review and improvement of data protection policy and practices, and to require other entities with which the Company deals in complying with the Data Privacy Act. |
| **What are the Opportunity/ies Identified?** | **Management approach** |
| Work and coordinate with the Company's Data Protection Officer and Information Technology Department to further protect data. | There shall be continuing review and improvement of data protection policy and practices, and to require other entities with which the Company deals in complying with the Data Privacy Act. |

## CORPORATE GOVERNANCE

The Company maintains a Manual of Corporate Governance (the "Manual") to institutionalize sound corporate governance practices, enhance investor protection, and increase accountability. The Company has a Compliance Officer (as the Manual requires) who has direct reporting responsibilities to the Chairman of the Board of Directors and monitors compliance with corporate governance matters. The Manual was revised / updated in March 2011 and July 2014 pursuant to SEC circulars. The Company nevertheless continuously reviews and evaluates its corporate governance policies to ensure the observance of sound governance practices. Likewise, pursuant to the requirements of the Manual, different board committees had been constituted whose members are appointed annually during the Board's Organizational Meeting on the same day the annual stockholders' meeting is held. The different board committees are: Audit Committee; Nomination Committee; Compensation and Remuneration Committee.

## UN SUSTAINABLE DEVELOPMENT GOALS

### Product Contribution to UN Sustainable Development Goals (SDGs)

| Key Product | Societal Value / Contribution to SDG | Potential Negative Impact of Contribution | Management approach to negative impact |
|---|---|---|---|
| LPG cooking gas (and related products: cylinders; LPG gensets; stoves & accessories) | Affordable & Clean Energy - as had been explained and discussed, LPG is a clean burning fuel with very few emissions. Households are sold with a reliable supply of clean cooking gas (LPG) through safe to use and well-maintained durable steel cylinders. | LPG might not be affordable to those in the relatively lower income strata. | For those who want stay within their budget, the Company has made available the affordable 2.7-kg sized Powerkalan. This is 58 to 60% lower than the regular 11-kg size that is used by the large majority of household consumers. |
| | Promotes sustainable use of Terrestrial Ecosystems - Apart from being a reasonably clean burning fuel compared to other fossil-based fuels, LPG is also non-toxic and has no impact on soil, water and underground aquifers. | At the moment, the Company sees no potential negative on this contribution. | - |
| | Provides Employment & | No potential negative | The stability of the |

| | | | |
|---|---|---|---|
| | Contributes to Economic Growth - The Company conducts its LPG business nationwide, under the brand name PRYCEGAS, in various areas of Luzon, Visayas, and Mindanao. It provides employment to around 4,500 people around the country, which includes probationary and regular employees, as well as people from providers of contracted services. The Company's LPG product (cooking gas) is a basic convenience that every household needs. Historical data from the Department of Energy has consistently shown increase in LPG demand, driven by increasing household income, a consistently growing economy especially in the last decade, and a relatively low LPG per capita consumption indicating much room for growth in the LPG industry. These considerations inspire the Company's drive to further expanding its plant capacities and business operations, which in turn will bring more employment to many. Employment necessarily impacts positively on poverty alleviation and inequality. | impact on this contribution, except perhaps if the Company stops as a going concern possibly owing to the vagaries of the market, in which case there will be loss of employment for the Company employees. | company's LPG business is underpinned by the following:<br>• Market demand for LPG will continue to grow given the country's low LPG consumption per capita compared to certain ASEAN neighbors – there is thus much room for demand growth;<br>• Strong household incomes can support the above demand, and such incomes have been brought about by the continually growing economy over the last decade;<br>• The LPG business is such that customers are virtually tied to a brand; they cannot easily switch brands since the refilling of a branded cylinder by another supplier is unlawful.<br>• LPG as an energy source is a clean burning fuel with very low emissions so that its use will stay for *at least* the next many decades; also, it is cheaper compared to heating by electricity;<br>• Competitively-priced green energy substitutes for LPG still need to be completely developed and commercialized on a large scale globally.<br><br>Further, the Company has already built a nationwide infrastructure network of import terminals, refilling |

| | | | |
|---|---|---|---|
| | | | plants, sales centers, and dealers that have made its LPG (cooking gas) closer and accessible to its consumers, and assure the market with a steady supply of LPG. |
| | Gender Equality - All operations and activities within the Company's businesses (LPG, memorial park operations, and pharmaceutical products) are such that they are gender neutral. | There are certain jobs or tasks that involve lifting / handling of very heavy steel cylinders (with content) that tends to favor the male gender. | Management does not have a policy expressly prohibiting the female gender from choosing to handle such tasks. However, this is a culture bound matter; women in Philippine society will almost always not take up such kind of heavy tasks. |
| | Partnership for the UN SDG – the foregoing considerations definitely makes the product and the Company a partner in promoting the goals for a sustainable development. | Collectively covered above already | Collectively covered above already |