MABUHAY VINYL CORPORATION
1965

2019 ANNUAL REPORT

ANNUAL REPORT

2019

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Our Vision

A dominant chemical and related services company for enhancing life and preserving the environment. A dynamic and profitable company focused on value leadership, reliable service and premium customer satisfaction.

Our Mission

We shall be the supplier of choice in our markets by being responsive to the needs of our customers and providing them the best value for money.

We shall maintain an organization that relentlessly pursues market opportunities; driven by a shared passion for success; enabled by an empowering environment for pursuing business goals, innovation, personal fulfilment and professional growth; and supported by a culture that recognizes the value-added contribution of its employees.

We shall comply with quality requirements, continually improve our Quality Management System, practice Responsible Care in the way we conduct business, and contribute to the development of the communities where we operate to enhance the quality of life.

We are committed to continually undertake measures to enhance the value of the company to its shareholders.

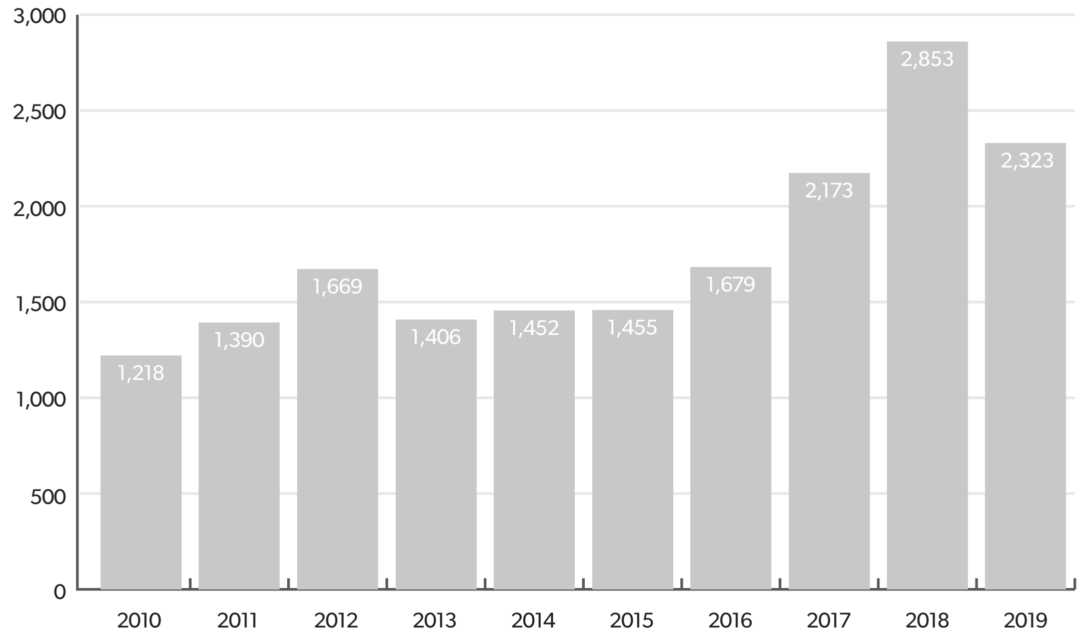
Corporate Values

God-centeredness • Integrity • Entrepreneurial Spirit • Customer Focus • Innovation • Teamwork • Excellence • Social Responsibility

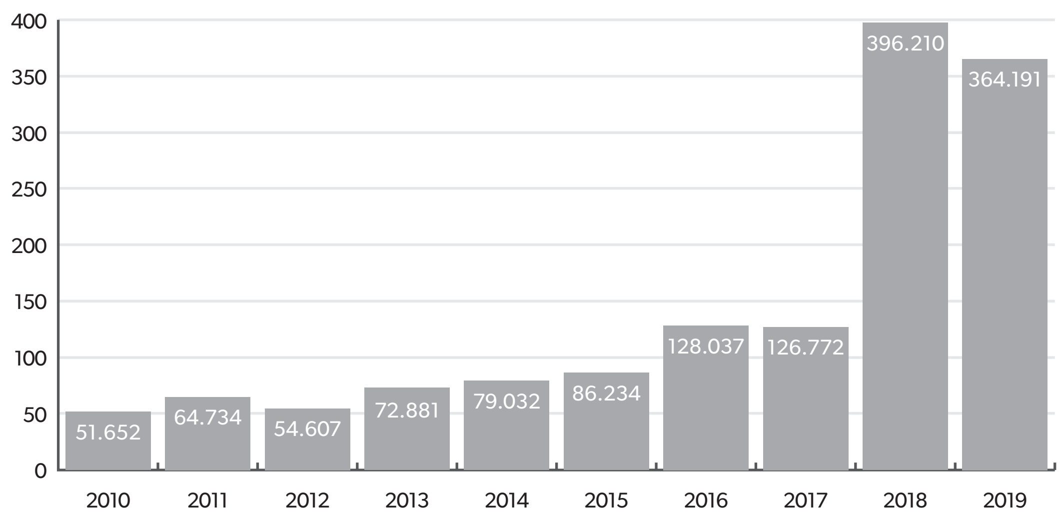
FINANCIAL HIGHLIGHTS

	2019	2018	% change
For the Year (in P'000)			
Net Sales	2,323,002	2,853,491	-19%
Gross Profit	952,318	992,248	-4%
Net Income after Tax	364,191	396,210	-8%
As of December 31 (in P'000)			
Current Assets	1,887,290	1,677,951	12%
Current Liabilities	202,262	266,324	-24%
Total Equity	2,506,931	2,196,109	14%
For the Year			
Earnings per share	0.550	0.598	-8%
Book Value per share	3.776	3.307	14%
As of December 31 (in P'000)			
Current Ratio	9.33	6.30	48%
Debt to equity ratio	0.15	0.18	-17%

REVENUES (in PHP Millions)



NET INCOME (in PHP Millions)



MESSAGE TO SHAREHOLDERS

> ***We will continue to strive for sustainable growth while contributing to the goals of our stakeholders through our business and CSR activities.***

We are pleased to present to you Mabuhay Vinyl Corporation's Annual Report for 2019. As you may recall, MVC achieved record-high results the previous year, 2018, due to a combination of robust demand and positive market conditions. 2019 was less favorable for MVC due to the challenging market developments brought about by the US-China trade war coupled with factory issues at a major customer. Nevertheless, MVC's profit of ₱364.191 Million equivalent to a Return-on-Equity of 43.5% is a significant accomplishment.

This is also the first year that MVC included a Sustainability Report as part of its 17-A Annual Report following the Global Reporting Initiative (GRI) Standard as required by the Securities and Exchange Commission and is available on our website. We encourage you to browse through the report which provides stakeholders with a view into MVC's governance and Corporate Social Responsibility (CSR) initiatives.

Even before CSR was popular, MVC has included this in its core values upon becoming a founding member of the Philippine Business for Social Progress in 1970. In May 2002, MVC became a signatory to the United Nations Global Compact Initiative and publishes its report every year through a UNGCI Communication on Progress section in its Annual Report. 2019's report is available on page 56. This initiative was reaffirmed when our parent company, Tosoh Corporation of Japan, joined the Global Compact Initiative last April 2019.

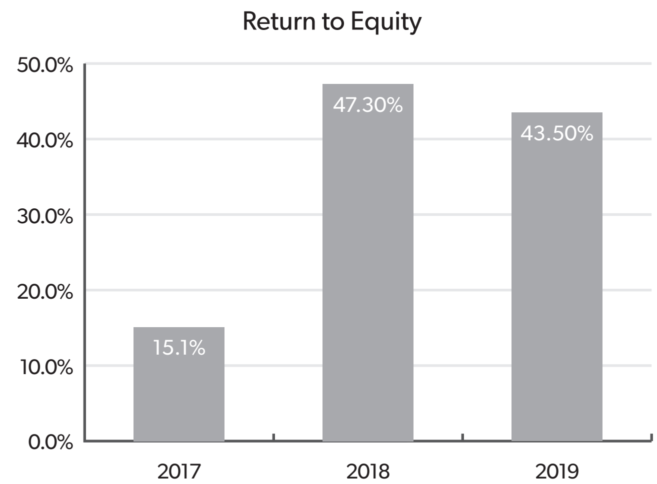
Corporate Performance

MVC recorded revenues of ₱2.323 Billion or ₱530 Million (18%) lower than in 2019 due to lesser sales volume and selling price of liquid caustic soda. Sales volume was negatively affected by the extended shutdown of a major customer when its plant was damaged by the magnitude 6.1 earthquake in Luzon last April 2019. On the other hand, selling prices decreased due to excess supply and weak demand in the international market as an off-shoot of the US-China trade war.

Despite the unfavorable market situation, MVC posted a net income after tax of ₱364.191 Million in 2019 or ₱32.019 Million (8.08%) lower than the ₱396.210 Million achieved the previous year. In retrospect, this year's performance proved to be the company's second-highest profit since its inception.

This was made possible by leveraging MVC's position as both the largest importer and only domestic manufacturer of liquid caustic soda, strong support from our major shareholder Tosoh Corporation and an unwavering commitment to be fair, reliable and responsive to the needs of our customers.

Furthermore, improved performance from chlorine-derivative products such as sodium hypochlorite, hydrochloric acid and liquid chlorine helped offset the lower gross profit from liquid caustic soda. Operating Income from chlorine derivatives was ₱32.385 Million higher than the previous year due to stronger demand and higher selling price.



Caustic Soda Market in 2019 and 2020

In 2019, the average price of liquid caustic soda in Southeast Asia declined by more than 30% compared to year-ago levels. After peaking at $715/dmt in November 2017, prices went through a rapid plunge brought about by shrinking demand and rising uncertainty as a result of the US-China trade war, expansion of production capacity in South Korea and India, and low demand from the Australian alumina industry. Prices had dropped by more than half to at least $300/dmt as of year-end 2019 with no sign of abating thereby creating a difficult situation for all chlor-alkali producers.

However, the trade war and capacity additions are short term in nature and a normal occurrence in MVC's 55-year history. Over the horizon, the emergence of the United States as a major supplier of crude oil and ethylene, including various oil-derived chemicals, is impacting the chemical industry in Asia with long term consequences to the profitability of the vinyl chain composed of Caustic Soda, Chlorine, Ethylene di-chloride, Vinyl Chloride Monomer and PVC resin.

At the onset of 2020, we are assaulted with the rapid spread of the COVID-19 coronavirus which involved nationwide implementation of quarantine and curtailed movement of people and cargo. The current situation is volatile, and we cannot assess the full impact at this time. However, demand in numerous countries has dropped significantly due to factory closures, logistic constraints and overall weak consumer sentiment. Some caustic soda plants have reduced operation while others have shut down. Integrated chlor-vinyl producers, with inter-dependent supply chains, are affected as well.

In the Philippines, we expect demand to decline primarily in the semiconductor and electronics sector whose supply chain is closely linked with factories in other countries. Import statistics indicate that 44% of raw materials are sourced from China, South Korea, and Japan.

Manufacturing Operations

MVC Iligan Plant operations continue to improve its utilization rate resulting in an increase in production output by 3.2%. This marks the third consecutive year where the Iligan Plant's output has risen and is at its highest since 2012. This was made possible by continuing investments in production equipment to increase efficiency and reliability as well as the growing demand for the chlorine co-product.

Major improvements involved the replacement of the liquefier of the liquid chlorine plant. Iligan Plant also expanded its sodium hypochlorite plant by 30% in support of the growing demand for water treatment applications.

MVC's Premium Bleach Plant in Laguna likewise increased production output by 14.3% due to reliable operations and strong demand in water disinfection, sewage treatment and household care applications.

Finance Operations

The Finance team's continued focus on credit and collection to reduce trade receivables resulted in improvements in average Day Sales Equivalent from 74 days in 2017, to 66 days in 2018 and 65 days in 2019.

More importantly, trade receivables decreased from ₱561.0 Million in 2018 to ₱450.6 Million in 2019 thus increasing the cash available for short term investment which led to higher interest income from ₱14.974 Million in 2018 to ₱40.289 Million in 2019.

As of December 31 2019, MVC's cash position stands at ₱1.176 Billion of which ₱1.0 billion has been appropriated by the company for an expansion project that is currently under study.

Distribution Operations

To support growing demand and improve supply reliability, MVC has completed the construction of additional storage tanks in Iligan, Batangas and Cebu. New liquid chlorine cylinders were likewise put into service to enable steady supply to growing customers.

However, setbacks were encountered during the drydocking of our chemical tankers M/T Snoopy-II and Snoopy-III which caused a delay in putting them back into operation. In particular, the delay with hydrochloric acid carrier M/T Snoopy-II resulted in a tight supply situation during the second quarter of 2019.

Future Expansion

Domestic demand for chlor-alkali chemicals continues to develop in line with the expansion of the Philippine economy. Applications in power generation, petrochemicals, semiconductors and electronics, and food processing are proving to be resilient drivers of growth. Meanwhile, demand for chlorine and its derivatives are likewise expected to exhibit robust performance due to investments of the private sector in potable water supply and distribution.

As demand grows, MVC is conducting a feasibility study to determine the viability of expanding its Chlor-alkali production capacity in the country to provide supply and price stability for its customers, to improve competitiveness against imported material and domestic competitors, and to make deliveries more reliable.

Outlook for the Rest of 2020

Due to the COVID-19 pandemic, 2020 is going to be an extremely challenging year for the domestic Chlor-alkali industry and the entire global economy. To control the spread of the coronavirus in their respective jurisdiction, almost all countries implemented quarantine measures where shutdown of all economic activity except for essential services mainly related to food, medical, utilities and sanitation services was imposed.

On March 16, Enhanced Community Quarantine (ECQ) was declared over the entire Luzon including NCR effective March 17. ECQ imposed stringent social distancing measures including strict home quarantine in all households, limited outside movement, work-from-home for almost all businesses, suspension of mass public transportation, among others. Visayas and Mindanao were later included as the outbreak expanded.

MVC's chemicals are used for the manufacture of food, treatment of drinking water, disinfection chemicals (i.e. bleach), in power generation, semiconductor and electronics, among others. Therefore, MVC is considered to be under the "essential industry" by the Department of Trade and Industry.

All of MVC's manufacturing plants and depots throughout the country have operated without interruption since the start of ECQ. The supply of raw materials remains unhampered while deliveries from our depots are completed successfully.

Since the start of this pandemic, MVC has placed the health and safety of its employees and support personnel among its primary concerns. Therefore, we have implemented the following guidelines:

1. Work-from-Home scheme for office personnel
2. Provision of face masks, face shields, vitamins, medicines, alcohol and bleach disinfectant
3. Provision of meal allowances to those on duty in ECQ areas
4. Transportation arrangements to minimize exposure during a commute
5. Enforced social distancing
6. Seminars to crew and contractors and body temperature checking
7. Segregation of plant and depot personnel into teams where applicable
8. Arrangement and enforcement of standard protocols for safety, plant/depot shut down and quarantine checkpoint encounters

In this environment, we expect demand for liquid chlorine and sodium hypochlorite to be the least impacted, although there is some slight weakness due to exposure in power generation. However, demand for liquid caustic soda and hydrochloric acid has fallen sharply across all industries during the second quarter, and we expect weak demand to linger on throughout the year.

Stronger at 55

MVC celebrates 55 years of providing quality products and services to our customers and as a responsible corporate citizen. Throughout the trials and victories of its corporate life, MVC has and will continue to meet the challenges with integrity, innovation, safety, teamwork and excellence to expand the business where and when opportunities allow.

We would like to take this opportunity to thank our customers, shareholders, business partners, bankers, suppliers, employees and everyone who made our success possible.

We also extend our heartfelt appreciation to our frontliners who, despite the huge challenges and risks, remain dedicated to the service of the Philippine Society.

Maraming salamat po.

Mabuhay!

Takahiro Machiba
Chairman and Chief Executive Officer

Edwin Ll. Umali
President and Chief Operating Officer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MABUHAY VINYL CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, 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.

SyCip Gorres Velayo & Co., 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.

Signature________________
Takahiro Machiba
Chairman

Signature________________
Edwin Ll. Umali
President

Signature________________
Michael S. Yu
Treasurer

Signed this 27th day of February 2020

MAR 0 9 2020

SUBSCRIBED AND SWORN to before me this __ day of March 2020; affiants exhibiting to me the following:

Takahiro Machiba	347-150-060
Edwin Ll. Umali	106-960-926
Michael S. Yu	193-284-786

Doc. No.: 515;
Page No.: 104;
Book No.: 10;
Series of 2020.

RUBEN T.M. RAMIREZ
Notary Public for Makati City
Until December 31, 2021
2086 B. Pascua St. Makati City
PTR No. 097071/ December 10.2019
IBP 28947/ MCLE No. VI-0020246
Roll No. MCT 811704 1/1-02-2020
Appointment No. M-158

3RD FLOOR, PHILAMLIFE SALCEDO BLDG., 126 L. P. LEVISTE ST., SALCEDO VILLAGE, MAKATI CITY, PHILIPPINES
TELEPHONE NO.: (632) 8817-89-71 * FAX NOS.: (632) 8816-47-65 / (632) 8867-2486

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Mabuhay Vinyl Corporation
3rd Floor, Philamlife Building
126 L.P. Leviste Street
Salcedo Village, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Mabuhay Vinyl Corporation and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, 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 (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 audit of the consolidated 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 audit 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Determining Physical Quantities and Cost of Inventories

Inventories, consisting mainly of industrial salt and chemicals (e.g., caustic soda, hydrochloric acid, liquid chlorine and sodium hypochlorite) amounted to ₱233.76 million as at December 31, 2019 and represent 8.1% of consolidated total assets. These inventories are held in various forms throughout the different stages of the production process and are mostly contained in carriers or storage tanks. The physical quantities of inventories on hand, in process or consumed are determined through quantity surveys, soundings and a set percentage of raw material usage based on output. The determination of quantities considers factors such as concentration, density and split of inputs and outputs at different stages in the process, which involve management estimates. The determination of the cost of inventories also involves estimation of the split of inputs and the allocation of costs to the different stages in the production process and to outputs. This is a key audit matter because of the significance of management's estimates in determining the physical quantities and the allocation of costs of the inventory.

The Group's disclosures about inventories are included in Notes 3 and 7 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's processes for cost accumulation and allocation and tested the relevant controls. We evaluated the competence, capabilities and objectivity of independent surveyors by considering their qualifications, experience and reporting responsibilities. We observed how management conducted the physical count and determined the quantities and tested the controls over the quantity conversion. We tested the cost accumulation and its recognition in the accounting system. We tested the inventory costing process for selected sample periods by tracing the inputs to costs to the source documents and recalculating the cost allocation to the different stages of production and outputs.

Valuation of Land Stated at Revalued Amount

The Group's property, plant and equipment include parcels of land which are stated at revalued amount of ₱499.74 million, being the fair value as at December 31, 2019, and represent 17.4% of the consolidated total assets. The determination of the fair values of these properties involve significant judgment and estimations. The valuation also requires the assistance of external appraisers whose calculations also depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Thus, we considered the valuation of land stated at revalued amount as a key audit matter.

The disclosures relating to the land are included in Notes 3 and 10 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external appraiser considering their qualification, experience and reporting responsibilities. We reviewed the methodology and assumptions used in the valuation of parcels of land. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listing of comparable properties. We also inquired from the external appraiser the basis of adjustments made to sales price.

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, 2018 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's 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 PFRSs, 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.

Auditor's Responsibilities for the Audit 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

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

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the 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 auditor's 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 auditor's 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 audit.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Manolito R. Elle.

SYCIP GORRES VELAYO & CO.

Manolito R. Elle
Manolito R. Elle
Partner
CPA Certificate No. 106471
SEC Accreditation No. 1618-AR-1 (Group A),
November 11, 2019, valid until November 10, 2022
Tax Identification No. 220-881-929
BIR Accreditation No. 08-001998-128-2019,
November 27, 2019, valid until November 26, 2022
PTR No. 8125233, January 7, 2020, Makati City

February 27, 2020

MABUHAY VINYL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱753,574,762	₱234,455,852
Short-term investments (Note 5)	422,374,656	594,904,383
Trade and other receivables (Note 6)	451,472,086	562,217,062
Inventories (Notes 7, 15 and 23)	233,763,735	252,768,113
Other current assets (Note 8)	26,105,027	33,605,219
Total Current Assets	1,887,290,266	1,677,950,629
Noncurrent Assets		
Equity instruments designated at fair value through other comprehensive income (FVOCI) [Note 9]	26,763,417	29,704,280
Property, plant and equipment		
At cost (Note 10 and 22)	429,235,058	364,986,227
Land of a subsidiary, at appraised value (Note 10)	499,736,000	494,670,000
Net retirement benefits asset (Note 18)	–	2,598,698
Other noncurrent assets (Notes 11 and 22)	29,160,124	28,894,265
Total Noncurrent Assets	984,894,599	920,853,470
TOTAL ASSETS	₱2,872,184,865	₱2,598,804,099
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱139,572,016	₱204,855,324
Customers' deposits (Note 10)	22,567,524	22,257,524
Income tax payable	35,304,085	39,210,874
Current portion of lease liabilities (Notes 2 and 22)	4,818,231	–
Total Current Liabilities	202,261,856	266,323,722
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 2 and 22)	25,158,260	–
Deferred income tax liabilities - net (Notes 2, 10 and 19)	135,423,139	134,577,921
Net retirement benefits payable (Note 18)	616,819	–
Other noncurrent liabilities	1,793,500	1,793,500
Total Noncurrent Liabilities	162,991,718	136,371,421
Total Liabilities	365,253,574	402,695,143
Equity		
Equity attributable to equity holders of the Company		
Capital stock (Note 13)	661,309,398	661,309,398
Capital paid in excess of par	176,594,308	176,594,308
Revaluation increment - net of deferred income tax effect (Notes 10 and 13)	340,360,867	336,814,667
Remeasurement gains on retirement benefits - net of deferred income tax effect (Note 18)	(2,775,270)	4,907,246
Reserve for fluctuations in investments in equity instruments (Note 9)	(5,031,068)	(2,090,205)
Retained earnings (Note 13):		
Appropriated	700,000,000	700,000,000
Unappropriated	626,830,220	309,689,586
	2,497,288,455	2,187,225,000
Noncontrolling interest	9,642,836	8,883,956
Total Equity	2,506,931,291	2,196,108,956
TOTAL LIABILITIES AND EQUITY	₱2,872,184,865	₱2,598,804,099

See accompanying Notes to Consolidated Financial Statements.

MABUHAY VINYL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Revenue from contracts with customers (Note 14)	₱2,323,002,069	₱2,853,491,378	₱–
Sale of goods	–	–	2,173,255,819
	2,323,002,069	2,853,491,378	2,173,255,819
COST OF GOOD SOLD (Notes 15 and 23)	(1,370,684,444)	(1,861,243,217)	(1,603,323,967)
GROSS PROFIT	952,317,625	992,248,161	569,931,852
Operating expenses (Note 2 and 16)	(476,394,134)	(438,324,911)	(421,003,953)
Interest income (Notes 4, 5, and 11)	41,695,985	15,594,012	5,412,485
Interest expense (Note 2 and 22)	(2,246,545)	–	–
Foreign exchange gain (loss) - net (Notes 20)	67,622	(2,341,134)	(1,400,404)
Other income - net (Note 17)	8,390,473	3,316,462	31,938,468
INCOME BEFORE INCOME TAX	523,831,026	570,492,590	184,878,448
PROVISION FOR INCOME TAX (Note 19)			
Current	157,021,928	169,898,468	60,781,233
Deferred	2,617,925	4,384,160	(2,674,486)
	159,639,853	174,282,628	58,106,747
NET INCOME	₱364,191,173	₱396,209,962	₱126,771,701
Net income attributable to:			
Equity holders of the Company	₱363,432,293	₱395,743,373	₱126,337,507
Noncontrolling interest	758,880	466,589	434,194
	₱364,191,173	₱396,209,962	₱126,771,701
BASIC/DILUTED EARNINGS PER SHARE (Note 24)	₱0.550	₱0.598	₱0.191

See accompanying Notes to Consolidated Financial Statements.

MABUHAY VINYL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME	₱364,191,173	₱396,209,962	₱126,771,701
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net changes in fair values of available-for-sale investments (Note 13)	–	–	250,000
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Increase in revaluation increment due to appraisal (Note 10)	5,066,000	235,508,000	29,361,000
Income tax effect	(1,519,800)	(70,652,400)	(8,808,300)
	3,546,200	164,855,600	20,552,700
Remeasurement gains (losses) on retirement benefits (Note 18)	(10,975,023)	5,657,692	23,451,914
Income tax effect	3,292,507	(1,697,308)	(7,035,574)
	(7,682,516)	3,960,384	16,416,340
Net changes in fair values of equity instruments designated at FVOCI (Note 9)	(2,940,863)	2,433,541	–
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	(7,077,179)	171,249,525	36,969,040
	(7,077,179)	171,249,525	37,219,040
TOTAL COMPREHENSIVE INCOME	₱357,113,994	₱567,459,487	₱163,990,741
Total comprehensive income attributable to:			
Equity holders of the Company	₱356,355,114	₱566,992,898	₱163,556,547
Noncontrolling interest	758,880	466,589	434,194
	₱357,113,994	₱567,459,487	₱163,990,741

See accompanying Notes to Consolidated Financial Statements.

MABUHAY VINYL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Attributable to the Equity Holders of the Company									
	Capital Stock (Note 13)	Capital Paid in Excess of Par	Revaluation Increment - Net of Deferred Income Tax Effect (Note 10)	Remeasurement Gains (Losses) on Retirement Benefits - Net of Deferred Income Tax Effect (Note 18)	Reserve for Fluctuations in Investments in Equity Instruments (Note 9)	Retained Earnings (Note 13) Appropriated	Retained Earnings (Note 13) Unappropriated	Total	Non-controlling Interest	Total
BALANCES AT JANUARY 1, 2017	₱661,309,398	₱176,594,308	₱151,406,367	(₱15,469,478)	(₱329,535)	₱–	₱554,477,988	₱1,527,989,048	₱10,976,695	₱1,538,965,743
Net income	–	–	–	–	–	–	126,337,507	126,337,507	434,194	126,771,701
Other comprehensive income	–	–	20,552,700	16,416,340	250,000	–	–	37,219,040	–	37,219,040
Total comprehensive income	–	–	20,552,700	16,416,340	250,000	–	126,337,507	163,556,547	434,194	163,990,741
Cash dividends (Note 13)	–	–	–	–	–	–	(46,291,659)	(46,291,659)	(2,993,522)	(49,285,181)
BALANCES AT DECEMBER 31, 2017	661,309,398	176,594,308	171,959,067	946,862	(79,535)	–	634,523,836	1,645,253,936	8,417,367	1,653,671,303
Effect of adoption of PFRS 9, *Financial Instruments*, as at January 1, 2018	–	–	–	–	(4,444,211)	–	25,714,035	21,269,824	–	21,269,824
BALANCES AT JANUARY 1, 2018	661,309,398	176,594,308	171,959,067	946,862	(4,523,746)	–	660,237,871	1,666,523,760	8,417,367	1,674,941,127
Net income	–	–	–	–	–	–	395,743,373	395,743,373	466,589	396,209,962
Other comprehensive income	–	–	164,855,600	3,960,384	2,433,541	–	–	171,249,525	–	171,249,525
Total comprehensive income	–	–	164,855,600	3,960,384	2,433,541	–	395,743,373	566,992,898	466,589	567,459,487
Cash dividends (Note 13)	–	–	–	–	–	–	(46,291,658)	(46,291,658)	–	(46,291,658)
Appropriation for the year (Note 13)	–	–	–	–	–	700,000,000	(700,000,000)	–	–	–
BALANCES AT DECEMBER 31, 2018	661,309,398	176,594,308	336,814,667	4,907,246	(2,090,205)	700,000,000	309,689,586	2,187,225,000	8,883,956	2,196,108,956
Net income	–	–	–	–	–	–	363,432,293	363,432,293	758,880	364,191,173
Other comprehensive income (loss)	–	–	3,546,200	(7,682,516)	(2,940,863)	–	–	(7,077,179)	–	(7,077,179)
Total comprehensive income (loss)	–	–	3,546,200	(7,682,516)	(2,940,863)	–	363,432,293	356,355,114	758,880	357,113,994
Cash dividends (Note 13)	–	–	–	–	–	–	(46,291,659)	(46,291,659)	–	(46,291,659)
BALANCES AT DECEMBER 31, 2019	₱661,309,398	₱176,594,308	₱340,360,867	(₱2,775,270)	(₱5,031,068)	₱700,000,000	₱626,830,220	₱2,497,288,455	₱9,642,836	₱2,506,931,291

See accompanying Notes to Consolidated Financial Statements.

MABUHAY VINYL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱523,831,026	₱570,492,590	₱184,878,448
Adjustments for:			
Depreciation and amortization (Note 10)	79,807,083	105,252,575	114,922,907
Interest income (Notes 4, 5 and 11)	(41,695,985)	(15,594,012)	(5,412,485)
Movement in retirement benefits asset or payable (Note 18)	(7,759,505)	(7,949,484)	(4,205,266)
Interest expense (Note 22)	2,246,545	–	–
Gain on sale of equipment (Note 17)	(315,360)	(435,351)	(153,214)
Accretion of interest on notes receivables (Note 17)	(248,844)	(188,541)	(446,401)
Unrealized foreign exchange loss	221,684	227,617	75,700
Operating income before working capital changes	556,086,644	651,805,394	289,659,689
Decrease (increase) in:			
Trade and other receivables	118,924,130	(50,757,745)	(126,169,866)
Inventories	19,004,378	17,213,918	(130,865,735)
Other current assets	9,727,056	47,571,803	(9,693,434)
Other noncurrent assets	(4,427,703)	(4,220,810)	2,580,175
Increase (decrease) in:			
Trade and other payables	(64,490,043)	38,720,792	48,972,149
Customers' deposits	310,000	1,152,204	(14,897)
Cash generated from operations	635,134,462	701,485,556	74,468,081
Income taxes paid, including creditable and final withholding taxes	(163,155,581)	(154,820,020)	(58,156,752)
Net cash flows generated from operations	471,978,881	546,665,536	16,311,329
CASH FLOWS FROM INVESTING ACTIVITIES			
Withdrawals of (additions to) short-term investments (Note 5)	172,529,727	(594,904,383)	–
Acquisitions of property and equipment (Note 10)	(108,428,149)	(68,141,905)	(108,317,314)
Interest received	33,590,268	8,911,270	4,160,205
Collections of notes receivable (Note 11)	2,735,268	2,312,415	690,572
Proceeds from sale of equipment	649,527	435,351	446,547
Amounts advanced to suppliers	–	(7,016,527)	–
Issuance of notes receivable (Note 11)	–	(2,310,000)	(5,426,000)
Net cash from (used in) investing activities	101,076,641	(660,713,779)	(108,445,990)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (Note 13)	(45,268,202)	(45,291,332)	(48,568,361)
Payment of principal portion of lease liabilities (Note 22)	(6,200,181)	–	–
Interest paid (Note 22)	(2,246,545)	–	–
Cash used in financing activities	(53,714,928)	(45,291,332)	(48,568,361)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(221,684)	(227,617)	108,344
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	519,118,910	(159,567,192)	(140,594,678)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	234,455,852	394,023,044	534,617,722
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱753,574,762	₱234,455,852	₱394,023,044

See accompanying Notes to Consolidated Financial Statements.

MABUHAY VINYL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Mabuhay Vinyl Corporation (the Company) and its subsidiary, MVC Properties Inc. (MPI), collectively referred to as "the Group", were incorporated in the Philippines on July 20, 1934 and November 26, 2008, respectively. In 1984, the Board of Directors (BOD) of the Company approved the amendment of its Articles of Incorporation to extend the corporate life of the Company, which expired on July 20, 1984. The amended Articles of Incorporation was approved by the Philippine Securities and Exchange Commission (SEC) in the same year. The Company's primary purpose is to engage in the business of manufacturing and distributing basic and intermediate chemicals with a wide range of household and industrial applications, including caustic soda, hydrochloric acid, liquid chlorine and sodium hypochlorite (chlor-alkali). MPI's principal activity is to lease its parcels of land to the Company. The primary purpose of the subsidiary also includes investing in, purchase or otherwise hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidence of indebtedness, and other securities or obligations of any corporation, association, domestic or foreign, for whatever lawful purpose the same may have been organized.

The Company is 87.97% owned by Tosoh Corporation, the parent company.

The Company operates manufacturing plants in Assumption Heights, Buru-un, Iligan City and Laguna Technopark, Biñan, Laguna. The Company's registered address is 3rd Floor, Philamlife Building, 126 L. P. Leviste Street, Salcedo Village, Makati City.

The consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were approved for issue by the BOD on February 27, 2020.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost convention, except for land which is carried at revalued amount and equity instruments designated at fair value through other comprehensive income (FVOCI) which are carried at fair value.

The consolidated financial statements are presented in Philippine peso (Peso), which is the Group's functional and presentation currency. Amounts are rounded to the last Peso, unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary, MPI, a 40%-owned entity over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Specifically, the Company controls an investee if and only if the Company has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over the investee, including:

- Any contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiary are prepared using consistent accounting policies for the same reporting period as the Company. All intra-group balances, transactions and gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. When the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Recognizes the Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company has directly disposed of the related assets or liabilities.

Noncontrolling Interest
Noncontrolling interest represents the portion (60%) of income and expense and net assets in MPI not held by the Company and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separate from the equity attributable to the equity holders of the Company.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019:

- PFRS 16, *Leases*

  PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, Leases, IFRIC 4, *Determining whether an Arrangement contains a Lease,* SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases.*

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Group has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17 and IFRIC 4. The Group will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

  The Group has elected to use the exemption proposed by the standard on the lease contracts for which the lease terms end within 12 months from the date of initial application. Lease payments on short term leases are recognized as expense on a straight-line basis over the lease term.

  The effect of adoption on the financial statements as at January 1, 2019 is as follows:

	Increase (Decrease)
Assets	
Property, plant and equipment	₱34,211,965
Other current assetst	(1,601,983)
Deferred tax assets	10,263,590

	Increase (Decrease)
Liabilities	
Lease liabilities	34,426,705
Trade and other payables	(1,816,723)
Deferred tax liabilities	10,263,590

Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to ₱34,211,965 representing the amount of right-of-use assets set up on transition date.
- Additional lease liabilities of ₱34,426,705 were recognized.
- Prepaid rent under "Other current assets" of ₱1,601,983 and Accrued rent payable under "Trade and other payables" of ₱1,816,723 related to previous operating leases arising from straight lining under PAS 17 were derecognized. Deferred tax impact amounted to ₱64,422.
- Deferred income tax asset and liability of ₱10,328,012 and ₱10,263,590 was recognized on the lease liabilities and right-of-use assets, respectively.

Prior to 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. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Other current assets" and "Other noncurrent assets" and "Trade and other payables", respectively.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

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. 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 also applied the following practical expedients provided by the standard:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application (short-term leases)
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

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

Operating lease commitments as at December 31, 2018	₱45,209,701
Weighted average incremental borrowing rate at 1 January 2019	7.59%
Discounted operating lease commitments at January 2019	35,471,448
Less: Commitments relating to short term leases	1,044,743
Lease liabilities recognized at January 1, 2019	₱34,426,705

The difference between the operating lease commitments as at December 31, 2018 and the lease liabilities recognized at transition date is due to reassessment of minimum fixed commitments.

Due to the adoption of PFRS 16, the Group's consolidated operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity as at January 1, 2019 since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

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

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgment in identifying uncertainties over its income tax treatments. The Group determined, based on its assessment, that it is probable that its income tax treatments will be accepted by the taxation authorities or if not probable, the impact is not significant to the consolidated financial statements. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the consolidated financial statements of the Group because the Group's financial instruments do not have prepayment features.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss (ECL) model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures.*

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

    Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on the consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group, if any, and is expected to have no significant impact to the consolidated financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

    The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

    An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments have no significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

    The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

    o A specific adaptation for contracts with direct participation features (the variable fee approach)
    o A simplified approach (the premium allocation approach) mainly for short-duration contracts

    PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. This new accounting standard has no significant impact on the consolidated financial statements. The standard is not applicable since the Group has no activities that are connected with insurance or issue insurance contracts.

Deferred effectivity

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

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

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

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated balance sheet based on current/non-current classification.

An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

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

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of 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 of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of 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 of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 assets or liability and the level of the fair value hierarchy.

As of December 31, 2019 and 2018, the Group's equity instruments and land are carried at fair value with recurring fair value measurements.

Land is stated at revalued amount based on the fair market value of the property as determined by an independent firm of appraisers.

Financial Instruments
A financial instrument is any contract that gives rise to financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets (Effective January 1, 2018)
Initial recognition and measurement
Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, FVOCI, and fair value through profit or loss (FVPL).

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

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

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

The Group has no financial assets at FVPL and financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments).

Financial assets at amortized cost (debt instruments). This category is most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortized cost includes cash in banks and cash equivalents, short-term investments, trade and other receivables and security and rental deposits included under "Other noncurrent assets".

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

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

The Group elected to classify irrevocably its quoted and unquoted equity instruments under this category.

Impairment of financial assets
The Group recognizes an allowance for ECL for all debt instruments not held at FVPL and contract assets. ECLs are based on 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 an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual cash flows in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Group uses the ratings published by a reputable rating agency.

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

<u>Financial Assets (Effective prior to January 1, 2018)</u>
Classification and measurement
Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets, as appropriate. As of December 31, 2017, the Group's financial assets consist of loans and receivables and AFS financial assets.

Loans and receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short-term or that it has designated as an AFS financial asset. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group has classified its cash and cash equivalents, trade and other receivables and security and rental deposits included under "Other noncurrent assets" as loans and receivables.

AFS financial assets. AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as part of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

The Group has classified its investments in shares of stock and golf shares as AFS investments. Impairment of financial assets.

Impairment of financial assets
The Group assesses at each reporting period whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The Group reviews the age and status of the financial assets and evaluates on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior, and other known market factors. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Objective evidence of impairment include, but are not limited to, bankruptcy or insolvency on the part of the customer and adverse changes in the economy. The Group provides an allowance when it is probable that the financial asset will not be collected in the future.

The amount of loss is recognized in the consolidated statement of income. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets. For equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in consolidated statement of income. Impairment losses on equity instruments are not reversed through profit or loss. Increases in fair value after impairment are recognized as part of OCI.

<u>Financial Liabilities (Effective for All Periods Presented)</u>
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables and customers' deposits. Gains and losses are recognized in the consolidated statement of income when these other financial liabilities are derecognized, as well as through the amortization process.

Subsequent measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

<u>Derecognition of Financial Assets and Liabilities (Effective for All Periods Presented)</u>
Financial assets. A financial asset (or, where applicable, a part of a financial asset or part of similar financial assets) is derecognized when:

- The contractual right to receive cash flows from the asset has 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 a third party under a "pass-through" arrangement; or,
- The Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of ownership 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.

Financial liabilities. A financial liability is derecognized when the obligation under the liability has been 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 statement of income.

<u>Offsetting of Financial Instruments (Effective for All Periods Presented)</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Cash and Cash Equivalents and Short-term Investments
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less from dates of acquisition, and are subject to an insignificant risk of changes in value.

Short-term investments are made for varying periods of more than three months but less than one year depending on the immediate cash requirements of the Group, and earn interest at the respective shortterm placements rates.

Interest income is recognized as the interest accrues, taking into account the effective interest yield of the asset.

Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Net realizable value for finished goods, merchandise, work-in-process and raw materials is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale. Net realizable value for materials and supplies is the replacement cost. In determining the net realizable value, the Group considers any adjustment necessary for obsolescence.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables," respectively, in the consolidated balance sheets.

Prepayments
Prepayments are expenses paid in advance and are recorded as an asset before they are utilized. This account comprises prepaid income tax, and other prepaid items. Prepaid income tax is deducted from income tax payable on the same year the revenue was recognized. Other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred.

Property, Plant and Equipment
Property, plant and equipment, except for land that is carried at revalued amount, are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation specifically for property and equipment installed/constructed on the leased properties. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Land is stated at revalued amount based on the fair market value of the property as determined by an independent firm of appraisers. The increase in the valuation of land, net of deferred income tax liability, is credited to "Revaluation increment" and presented in the equity section of the consolidated balance sheet. Upon disposal, the relevant portion of the revaluation increment realized in respect of the previous valuation will be released from the revaluation increment directly to retained earnings. Decreases that offset previous increases in respect of the same property are charged against the revaluation increment; all other decreases are charged against current operations. The Group obtains an updated appraisal report if there are indicators that the value of the properties may have significantly changed.

The accounting policy on right-of-use assets are discussed under "Leases" section.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	10 years
Buildings and structures	10 years
Machinery and equipment	3-10 years
Transportation equipment	2-10 years
Office furniture and equipment	3-5 years

Leasehold improvements are amortized over the term of the lease or the life of the assets (average of 10 years), whichever is shorter.

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

When items of property, plant and equipment are sold or retired, their cost and related accumulated depreciation and any impairment in value are removed from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Construction in progress represents projects under construction and is stated at cost (includes cost of construction, machinery and equipment under installation and other related costs). Construction in progress is not depreciated until such time as the relevant assets are completed and ready for its intended use. Interest costs on borrowings used to finance the construction of the project are accumulated under this account. Interest costs are capitalized until the project is completed and becomes operational. The capitalized interest is amortized over the estimated useful life of the related assets.

Investment in a Subsidiary

Investment in a subsidiary is accounted for using the cost method less any impairment in value. Under the cost method, distributions from accumulated profits of the investee are recognized as dividend income from the investments.

A subsidiary is an entity that is controlled by another entity. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Control is exercised over a structured entity, when the purpose and design of the structured entity indicates that the entity is the primary beneficiary of the structured entity.

MPI qualifies as a structured entity. MPI's purpose and design indicates that the Company is the primary beneficiary, thus, it is considered a subsidiary of MVC.

The investment account is derecognized when the Company loses control over the subsidiary.

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units (CGU) are written down to their recoverable amount. The recoverable amount of these assets is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. 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, if any, are recognized in the consolidated statement of income.

Capital Stock

Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Capital paid in excess of par". When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more readily determinable.

Cash Dividend

The Company recognizes a liability to pay a dividend when the distribution is authorized by the BOD and the distribution is no longer at the discretion of the Company. A corresponding amount is deducted against retained earnings.

Retained Earnings
Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration and other capital adjustments.

Revenue (Effective January 1, 2018)
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The Group has generally concluded that it is principal in its revenue arrangements because it typically controls the goods and services before transferring them to the customer.

Sale of goods
Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally when the goods are delivered to and accepted by the customer. The normal credit term is 30 to 60 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing component, noncash considerations, and considerations payable to the customer, if any.

Shipping revenue
The Group offers shipping services that are included with the sale of goods to the customer. The services can be obtained from other providers and therefore represent distinct services. The Group recognizes revenue upon completion of the related services, which coincides upon the delivery and acceptance of the goods by the customer.

Other services
The Group provides other services to certain customers. The Group recognizes revenue upon completion of the related services.

Contract Balances
Contract assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under *Financial Assets and Financial Liabilities – Financial assets at amortized cost (debt instruments).*

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

Revenue (Effective Prior to January 1, 2018)
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits will flow to the Group. Net sales is measured at the fair value of the consideration received or receivable, excluding discounts and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has determined that it is acting as principal in all its revenue arrangements. The following specific criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized when the goods are delivered to and accepted by customers.

Sale of property
Revenue is recognized when the risks and rewards of ownership of the investment property have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, revenue is recognized only when all the significant conditions are satisfied.

Other Comprehensive Income (OCI)
OCI comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. OCI of the Group includes changes in revaluation increment on land, fair value fluctuations in investments in equity instruments and remeasurement gains or losses on retirement benefits.

Cost of Goods Sold and Operating Expenses

Cost of goods sold

Cost of goods sold is recognized in the consolidated statement of income when the related goods are sold. These are measured at the fair value of the consideration paid or payable.

Cost of shipping and other services

Cost of shipping and other services are recognized as expense upon completion of the related services, which coincides upon the delivery and acceptance of the goods by the customer.

Operating expenses

Operating expenses are recognized in the consolidated statement of income upon utilization of the services or materials or at the date that these expenses are incurred. These are measured at the fair value of the consideration paid or payable.

Leases (Effective January 1, 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets. It is the Group's policy to classify right-of-use assets as part of property, plant and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated balance sheet. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the underlying leased assets, as follows:

Lease Asset	Useful Life (Lease Term)
Land	5-9 years
Building	1 year and 2 months
Warehouse and storage tanks	2 years and 9 months

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases

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

Leases (Effective Prior to January 1, 2019)

The Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of income.

Operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

Leases (Effective for All Periods Presented)

The Group as a lessor

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

Retirement Benefit Costs

Retirement benefits payable, as presented in the consolidated balance sheet, is the aggregate of the present value of the defined benefit obligation reduced by the fair value of plan assets, adjusted for the effect of limiting a net defined benefit asset to the asset ceiling, each at the end of the reporting period. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method. The retirement benefit costs comprise of the service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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 statement of income.

Remeasurements comprising actuarial gains and losses, any difference in the interest income and actual return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited by the ceiling equivalent to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. All other borrowing costs are expensed as incurred. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing cost is suspended when the active development of a qualifying asset is suspended for an extended period. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Foreign Currency-denominated Transactions and Translation

Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting period. Foreign exchange gains or losses are credited to or charged against current operations.

Income Tax

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting period.

Deferred income tax

Deferred income tax is provided on all temporary differences at the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax liabilities are also recognized for all taxable temporary differences associated with investment in subsidiaries unless the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax, however, is not recognized when it arises from initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax asset to be utilized.

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

Income tax relating to items recognized in the consolidated statement of comprehensive income and directly in equity is recognized in the consolidated statement of comprehensive income and not included in the calculation of net income for the year.

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

Earnings Per Share

Basic earnings per share is computed by dividing the net income for the year by the weighted-average number of issued and outstanding shares of stock during the year, excluding ordinary shares purchased by the Company and held as treasury shares. The Company has no potential dilutive common shares.

Provisions and Contingencies

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at the pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Segment Information

For management reporting purposes, the Group considers the manufacturing and distribution of basic and intermediate chemicals as its primary business activity and only operating segment. Such business segment is the basis upon which the Group reports its operating segment information. The operating segments are reported in a manner that is more consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the BOD that makes strategic decisions. The Group has no inter-segment sales and transactions.

Events After the Balance Sheet Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments and estimates 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 as of the date of the consolidated financial statements. Actual results could differ from such estimates. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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

Evaluation of control over a structured entity
MVC has 40% investment in MPI. The Company leases parcels of land from MPI where its manufacturing plants are situated.

Based on the contractual terms, MVC assessed that the voting rights in MPI are not dominant factor in deciding who controls the entity. Also, it is assessed that there is insufficient equity financing to allow MPI to finance its activities without the non-equity financial support of the Company. Therefore, MVC concluded that MPI is a structured entity under PFRS 10. Moreover, the purpose and design of MPI indicates that MVC is the primary beneficiary, thus, it is considered as a subsidiary of MVC.

Consolidation of MPI
An investee is included in consolidation even in cases where the Company owns less than one-half of the investee's equity, when the substance of the relationship between the Company and the investee indicates that the investee is controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. While the Company has only 40% equity interest in MPI, the Company has majority representation in MPI's BOD. The Company is also designated to appoint personnel to manage the day-to-day operations of MPI. Moreover, the only activity of MPI is to lease out its parcels of land to the Company (see Notes 10 and 23). Based on these facts and circumstances, management concluded that the Company controls MPI and, therefore, included MPI in the consolidated financial statements of the Group.

Determining the lease term of contracts with renewal and termination options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain to be exercised.

The Group has several lease contracts that include renewal options subject to mutual agreement of both parties and termination options. The Group believes that renewal options are not enforceable as both parties still need to agree to renew, including the terms of the renewal. A renewal that is still subject to mutual agreement of the parties is legally unenforceable under the Philippine laws until both parties come to an agreement on the terms. The periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised (see Note 22).

Assessment of impairment of nonfinancial assets
The Group assesses the impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include: significant under performance relative to expected historical or projected operating results, significant changes in the manner of use of acquired assets or the strategy for overall business and significant negative industry or economic trends. Management assessed that there was no indication of impairment on the Group's property, plant and equipment as of December 31, 2019 and 2018.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur:

Determination of inventory quantities and cost allocation
The Company determines the physical quantities of inventories on hand, in process or consumed through quantity surveys, soundings and a set percentage of raw material usage based on output. The determination of quantities considers factors such as

concentration, density and split of inputs and outputs at different stages in the production process, which involve management estimates. Also, valuation of inventories at cost include various cost components and involve estimation of the split of inputs and the allocation of costs to the different stages in the production process and to outputs. The quantities of inventories and the cost allocation could vary significantly as a result of changes in the management's estimate of the factors considered in determining the physical quantities and the allocation of costs of the inventory.

Inventories, net of allowance for losses, amounted to ₱233.76 million and ₱252.77 million as of December 31, 2019 and 2018, respectively (see Note 7).

Revaluation of land
The land, included in property, plant and equipment, is stated at revalued amount as of December 31, 2019 and 2018 based on the fair market value of the property as determined by an independent firm of appraisers. The valuation was made on the basis of the fair market value determined by referring to the character and utility of the properties, comparable property which have been sold or offered for sale recently, and the land's highest and best use in the locality where the property is located. As of December 31, 2019, and 2018, the carrying value of land amounted to ₱499.74 million and ₱494.67 million, respectively (see Note 10).

Estimation of useful lives of property, plant and equipment
The Group estimated the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental factors and anticipated use of the assets. Depreciable property, plant and equipment, net of accumulated depreciation, amounted to ₱395.50 million and ₱344.91 million as of December 31, 2019 and 2018, respectively (see Note 10).

Provision for ECL on trade receivables
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in forward-looking estimates are analyzed.

The assessment of the correlation between observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. Trade receivables, net of allowance for ECL, amounted to ₱441.87 million and ₱552.33 million as of December 31, 2019 and 2018, respectively (see Note 6).

Determination of fair value of investment in unquoted equity instruments
The Group determines the fair value of unquoted equity instruments using acceptable valuation technique. The Group has investment in unquoted equity instruments which is measured at fair value using the adjusted net asset value method and discounted for any lack of marketability. Under this method, the fair value is derived by determining the fair values of identifiable assets and liabilities of the investee company. The carrying value of the investment amounted to ₱25.76 million and ₱28.70 million as of December 31, 2019 and 2018, respectively (see Notes 9 and 21).

Estimating the incremental borrowing rate in measuring lease liabilities
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the 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 IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The carrying value of lease liabilities amounted to ₱29.98 million as of December 31, 2019 (see Note 22).

Estimation of retirement benefits cost
The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 18 to the consolidated financial statements and include among others, discount rates and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement cost and obligations.

The net retirement benefits liability amounted to ₱0.62 million as of December 31, 2019 while net retirement asset amounted to ₱2.60 million as of December 31, 2018 (see Note 18).

4. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	₱100,488,841	₱126,411,442
Short-term deposits	653,085,921	108,044,410
	₱753,574,762	₱234,455,852

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of between one day to three months and earn an average interest rate of 3.87% in 2019 and 2.11% in 2018.

Interest income earned on cash and cash equivalents amounted to ₱18.41 million in 2019, ₱9.33 million in 2018 and ₱5.24 million in 2017.

5. Short-term Investments

Short-term investments amounted to ₱422.37 million and ₱594.90 million as of December 31, 2019 and 2018, respectively, and earn average interest rates ranging from 2.90% to 5.75% in 2019 and from 3.95% to 5.50% in 2018.

Interest income earned on short term investments amounted to ₱22.97 million in 2019 and ₱5.87 million in 2018 (nil in 2017).

6. Trade and Other Receivables

	2019	2018
Trade (Note 14):		
Private	₱444,560,089	₱556,933,870
Government	5,579,656	3,955,557
Related party (Note 23)	418,962	130,462
	450,558,707	561,019,889
Interest receivable	4,409,504	4,717,443
Notes receivable - current portion (Note 11)	2,559,861	2,486,424
Others	2,636,296	2,685,588
	460,164,368	570,909,344
Less allowance for ECL	8,692,282	8,692,282
	₱451,472,086	₱562,217,062

Trade receivables are noninterest-bearing and are generally on 30-60 day terms.

The allowance for ECL relates to trade receivables. No allowance has been provided on other receivables. There were no movements in the allowance for ECL for the years ended December 31, 2019 and 2018.

7. Inventories

	2019	2018
At cost:		
Finished goods and merchandise (Notes 15 and 23)	₱161,096,257	₱136,681,876
Work-in-process	6,942,943	3,874,636
Raw materials	41,286,362	74,462,531
Materials and supplies	21,006,382	25,364,024
	230,331,944	240,383,067
At net realizable value:		
Materials and supplies	3,431,791	3,431,791
Finished goods	–	8,953,255
	3,431,791	12,385,046
	₱233,763,735	₱252,768,113

Allowance for inventory losses as of December 31, 2019 and 2018 amounted to ₱3.07 million and ₱3.72 million, respectively. The cost of materials and supplies carried at net realizable value amounted to ₱6.50 million as of December 31, 2019 and 2018, while cost of finished goods carried at net realizable value amounted to ₱9.61 million as of December 31, 2018 (nil as of December 31, 2019). Inventories recognized as expense are presented as "Cost of goods sold" in the consolidated statements of income (see Note 15).

8. Other Current Assets

	2019	2018
Prepaid taxes	₱12,433,202	₱14,660,066
Advances on purchases	8,582,263	3,898,788
Input VAT - net	1,979,724	12,994,574
Prepaid insurance	1,127,283	268,289
Software subscription	623,094	569,877
Other prepayments	1,359,461	1,213,625
	₱26,105,027	₱33,605,219

Advances on purchases pertain to advances made to suppliers for purchase of goods and services.

Prepaid taxes include creditable withholding taxes to be applied against income tax payable.

9. Equity Instruments Designated at FVOCI

	2019	2018
Quoted equity instruments:		
Listed companies	₱399,915	₱399,915
Golf shares	600,000	600,000
	999,915	999,915
Unquoted equity instruments:		
Balance at beginning of year	28,704,365	26,270,824
Changes in fair value included in OCI	(2,940,863)	2,433,541
Balance at end of year	25,763,502	28,704,365
	₱26,763,417	₱29,704,280

The fair value of investments in shares of listed companies was based on their bid prices as of December 31, 2019 and 2018. Fair value of golf shares was based on club share quotes that are publicly available from the local dailies and websites of club share brokers as of December 31, 2019 and 2018.

The investment in unquoted equity instruments consists of investments in 3,813 preferred, redeemable, non-convertible, non-voting shares of Tosoh Polyvin Corporation (TPC), representing 3% of total preferred shares and 10% of TPC's issued capital stock equivalent to 22,478 common shares. The fair value of the investment in unquoted equity instruments was based on the adjusted net asset value approach and discounted by lack of marketability.

As a result of the adoption PFRS 9 starting January 1, 2018, the Group remeasured the unquoted equity instrument at fair value (previously measured at cost less impairment). Consequently, the Group reclassified the impairment loss previously charged against "Retained earnings" amounting ₱25.71 million as at January 1, 2018 to "Reserve for fluctuations in investments in equity instruments". Also, reserve for fluctuation in investment in equity instruments increased by ₱4.44 million as of January 1, 2018.

The following table presents the movements in "Reserve for fluctuations in investments in equity instruments":

	2019	2018
Balances at January 1	(₱2,090,205)	(₱4,523,746)
Change in fair value included in OCI	(2,940,863)	2,433,541
Balances at December 31	(₱5,031,068)	(₱2,090,205)

The Group follows the specific identification method in determining the cost of any investment in equity securities sold.

10. Property, Plant and Equipment

a. Property, plant and equipment at cost consist of:

As of December 31, 2019

	Beginning Balances, as Previously Reported	Adoption of PFRS 16 (See Note 2)	Beginning Balances, as Restated	Additions	Disposals/ Retirement	Reclassifications	Ending Balances
Cost							
Land improvements	₱41,141,112	₱–	₱41,141,112	₱–	(₱17,668)	₱247,605	₱41,371,049
Buildings and structures	298,516,440	–	298,516,440	–	(16,218,732)	21,924,096	304,221,804
Machinery and equipment	1,734,472,314	–	1,734,472,314	136,589	(31,214,866)	43,095,792	1,746,489,829
Transportation equipment	247,628,481	–	247,628,481	3,593,365	(9,592,922)	23,696,277	265,325,201
Office furniture and equipment	42,833,867	–	42,833,867	1,679,455	(1,879,217)	220,129	42,854,234
Leasehold improvements	10,149,707	–	10,149,707	–	–	170,000	10,319,707
Right-of-use asset - land	–	26,190,030	26,190,030	1,749,967	–	–	27,939,997
Right-of-use asset - building	–	2,260,911	2,260,911	–	–	–	2,260,911
Right-of-use asset - Warehouse and storage tanks	–	5,761,024	5,761,024	–	–	–	5,761,024
	2,374,741,921	34,211,965	2,408,953,886	7,159,376	(58,923,405)	89,353,899	2,446,543,756
Accumulated Depreciation							
Land improvements	32,600,688	–	32,600,688	1,145,201	(17,668)	–	33,728,221
Buildings and structures	258,115,227	–	258,115,227	7,118,426	(16,218,732)	–	249,014,921
Machinery and equipment	1,492,754,815	–	1,492,754,815	39,802,519	(31,214,866)	–	1,501,342,468
Transportation equipment	197,790,842	–	197,790,842	23,026,021	(9,258,755)	–	211,558,108
Office furniture and equipment	41,288,454	–	41,288,454	1,013,906	(1,879,217)	–	40,423,143
Leasehold improvements	7,278,143	–	7,278,143	583,168	–	–	7,861,311
Right-of-use asset - land	–	–	–	3,085,000	–	–	3,085,000
Right-of-use asset - building	–	–	–	1,937,924	–	–	1,937,924
Right-of-use asset - Warehouse and storage tanks	–	–	–	2,094,918	–	–	2,094,918
	2,029,828,169	–	2,029,828,169	79,807,083	(58,589,238)	–	2,051,046,014
Construction in progress	20,072,475	–	20,072,475	103,018,740	–	(89,353,899)	33,737,316
Net Book Values	₱364,986,227	₱34,211,965	₱399,198,192	₱30,371,033	(₱334,167)	₱–	₱429,235,058

As of December 31, 2018

	Beginning Balances	Additions	Disposals/ Retirement	Reclassifications	Ending Balances
Cost					
Land improvements	₱40,874,085	₱–	₱–	₱267,027	₱41,141,112
Buildings and structures	294,254,871	–	–	4,261,569	298,516,440
Machinery and equipment	1,685,270,435	304,641	–	48,897,238	1,734,472,314
Transportation equipment	239,145,380	5,261,606	(3,504,777)	6,726,272	247,628,481
Office furniture and equipment	41,665,319	1,151,762	–	16,786	42,833,867
Leasehold improvements	10,149,707	–	–	–	10,149,707
	2,311,359,797	6,718,009	(3,504,777)	60,168,892	2,374,741,921
Accumulated Depreciation					
Land improvements	30,748,311	1,852,377	–	–	32,600,688
Buildings and structures	249,225,231	8,889,996	–	–	258,115,227
Machinery and equipment	1,423,449,285	69,305,530	–	–	1,492,754,815
Transportation equipment	177,728,632	23,566,987	(3,504,777)	–	197,790,842
Office furniture and equipment	40,231,580	1,056,874	–	–	41,288,454
Leasehold improvements	6,697,332	580,811	–	–	7,278,143
	1,928,080,371	105,252,575	(3,504,777)	–	2,029,828,169
Construction in progress	18,817,471	61,423,896	–	(60,168,892)	20,072,475
Net Book Values	₱402,096,897	(₱37,110,670)	₱–	₱–	₱364,986,227

Cylinders, included under machinery and equipment, are used to store and transport the Group's finished goods to customers. The Group receives deposits from the customers while the cylinders are in the latter's possession. The customers' deposits are refundable when the cylinders are surrendered. Outstanding customers' deposits as of December 31, 2019 and 2018 amounted to ₱22.57 million and ₱22.26 million, respectively.

Construction in progress
Included in the construction in progress is an amount of ₱18.59 million as of December 31, 2019 relating to expenditures for machinery and equipment and an amount of ₱13.48 million as of December 31, 2018 relating to expenditures for buildings and structures. As of December 31, 2019 and 2018, the Group has no significant firm capital commitments relating to the completion of construction in progress.

b. Land of a subsidiary at appraised value as of December 31, 2019 and 2018 consists of:

	2019	2018
Cost	₱13,506,189	₱13,506,189
Appraisal increase:		
Balances at beginning of year	481,163,811	245,655,811
Increase in revaluation increment due to appraisal	5,066,000	235,508,000
Balances at end of year	486,229,811	481,163,811
	₱499,736,000	₱494,670,000

As of December 31, 2019, and 2018, the parcels of land are stated at revalued amount categorized under Level 3 based on the appraisal report dated November 2019 and January 2019, respectively, by SEC-accredited and independent appraisal companies. The appraised value as of December 31, 2019 and 2018 was determined using the Market Approach wherein the market prices for comparable property listings are adjusted to account for the marketability, nature, bargaining allowance, location and size of the specific properties.

The significant unobservable input to the valuation is the price per square meter of ₱1,550 to ₱9,000 in 2019 and ₱1,400 to ₱7,500 in 2018. Significant increases (decreases) in the estimated price per square meter in isolation would result in a significantly higher (lower) fair value. The valuation considers an industrial land development as the highest and best use of the properties.

As of December 31, 2019, and 2018, the revaluation increment, net of the deferred income tax effect, amounted to ₱340.36 million and ₱336.81 million, respectively.

On March 19, 2009, the Company's BOD approved the transfer/assignment of ownership of the Company's parcels of land located at Buru-un, Iligan City and Biñan, Laguna in exchange for the shares of stock of MPI. On September 1, 2009, the Company and MPI executed a Deed of Exchange whereby the Company ceded, transferred and conveyed unto MPI, in a manner absolute and irrevocable, the said parcels of land (excluding any improvements thereon) free and clear of all liens and encumbrances, and all its rights, title and interest therein, in exchange for 5,131,515 Common A shares of MPI (representing 40% interest) with a par value of ₱30 per share or total value of ₱153,945,450. The transaction was considered a tax free exchange, except for documentary stamp taxes, as certified by the Bureau of Internal Revenue (BIR).

The parcels of land are owned by MPI and are included in the consolidated financial statements in compliance with PFRS. The Company leases the land from MPI. The lease rentals have been eliminated in the consolidated financial statements. The title to the land remains with MPI and will not be transferred to the Company.

11. Other Noncurrent Assets

	2019	2018
Security and rental deposits (Note 22)	₱16,275,785	₱15,468,535
Notes receivable - noncurrent portion (Note 6)	3,849,343	6,409,204
Advances to suppliers	9,034,996	7,016,526
	₱29,160,124	₱28,894,265

In 2018 and 2017, the Company granted loans to third party borrowers with a total principal amount of ₱2.31 million and ₱5.43 million, respectively, with an interest of 8% per annum. The loans are collectible in monthly amortizations over five years. The loans are secured by certain motor vehicles owned by the borrowers. Interest income earned on notes receivable amounted to ₱0.32 million in 2019, ₱0.40 million in 2018 and ₱0.17 million in 2017.

Advances to suppliers significantly represent downpayments to suppliers for purchases of property and equipment.

12. Trade and Other Payables

	2019	2018
Trade payables	₱43,885,730	₱113,938,358
Accrued expenses	73,222,973	72,243,869
Dividends payable (Note 13)	13,108,582	12,085,125
Withholding taxes and other payables	3,998,880	1,205,789
Contract liabilities (Note 14)	1,761,134	1,895,065
Others	3,594,717	3,487,118
	₱139,572,016	₱204,855,324

Trade payables are noninterest-bearing and are normally settled on 15-day to 60-day terms.

Accrued expenses consist mainly of accruals for shipping and delivery expenses, cost of power, professional fees and rental expenses. These are noninterest-bearing and have average terms of one to two months.

Total intercompany payable eliminated upon consolidation amounted to ₱2.75 million and ₱2.03 million as of December 31, 2019 and 2018, respectively.

13. Equity

Capital Stock

The number of shares authorized, issued and outstanding as of December 31, 2019 and 2018 are as follows:

Authorized at ₱1 par value per share	1,072,942,532
Issued and outstanding	661,309,398

Track Record of Registration of Securities

Authorized capital stock

Date	Activity	Par Value	No. of Common Shares	Balance
February 5, 1997	Authorized	₱1.00	–	₱1,200,000,000
December 28, 2007	Retirement of capital stock	1.00	(100,057,468)	1,099,942,532
August 31, 2011	Retirement of capital stock	1.00	(27,000,000)	1,072,942,532

Issued and outstanding

Date	Activity	Offer Price	No. of Common Shares	Balance
February 5, 1997	Issued and outstanding before listing	₱–	–	₱433,785,389
February 5, 1997	Issued during offer	1.90	223,187,000	656,972,389
June 15, 1997	Stock dividend	–	131,394,477	788,366,866
December 28, 2007	Retirement of capital stock	–	(100,057,468)	688,309,398
August 31, 2011	Retirement of capital stock	–	(27,000,000)	661,309,398

The Company's shares are listed on and traded at the Philippine Stock Exchange (PSE) and the number of equity holders of the Company was 2,283 and 2,291 as of December 31, 2019 and 2018, respectively. The Company received its permit to offer its shares to the public from the Philippine SEC on October 7, 1996.

Retained Earnings

Below is a summary of the dividends declared for the years ended December 31, 2019, 2018 and 2017:

Date of Declaration	Date of Record	Dividend rate	Dividend per share
April 27, 2017	May 26, 2017	7%	0.07
April 26, 2018	May 21, 2018	7%	0.07
April 25, 2019	May 23, 2019	7%	0.07

Movements of dividends payable follow:

	2019	2018
Balances at beginning of year	₱12,085,125	₱11,084,799
Cash dividends declared	46,291,659	46,291,658
Payment of dividends	(45,268,202)	(45,291,332)
Balances at end of year	₱13,108,582	₱12,085,125

Retained earnings include ₱46.84 million and ₱39.89 million as of December 31, 2019 and 2018, respectively, representing deferred income tax assets and retained earnings of MPI, which are not available for dividend declaration.

On November 21, 2018, the BOD issued a resolution to appropriate retained earnings of ₱700 million for future projects and capital expenditures. Details of the appropriated retained earnings as at December 31, 2019 and 2018 follows:

Projects	Time Line	Amount
Future projects and capital expenditures	2020 - 2023	₱700,000,000

On February 27, 2020, the BOD issued a resolution to make an additional appropriation on retained earnings of ₱300 million for future projects and capital expenditures.

Movements of OCI

	Revaluation Increment -Net of Deferred Income Tax Effect	Remeasurement Gains (Losses) on Retirement Benefits - Net of Deferred Income Tax Effect	Reserve for Fluctuations in Investments in Equity Instruments	Total
BALANCES AT JANUARY 1, 2017	₱151,406,367	(₱15,469,478)	(₱329,535)	₱ 135,607,354
Increase in revaluation increment due to appraisal	20,552,700	–	–	20,552,700
Remeasurement gains on retirement benefits	–	16,416,340	–	16,416,340
Net changes in fair values of AFS investments	–	–	250,000	250,000
BALANCES AT DECEMBER 31, 2017	171,959,067	946,862	(79,535)	172,826,394
Effect of adoption of PFRS 9 (Note 9)	–	–	(4,444,211)	(4,444,211)
BALANCES AT JANUARY 1, 2018	171,959,067	946,862	(4,523,746)	168,382,183
Increase in revaluation increment due to appraisal	164,855,600	–	–	164,855,600
Remeasurement gains on retirement benefits	–	3,960,384	–	3,960,384
Net changes in fair values on equity instruments designated at FVOCI	–	–	2,433,541	2,433,541
BALANCES AT DECEMBER 31, 2018	336,814,667	4,907,246	(2,090,205)	339,631,708
Increase in revaluation increment due to appraisal	3,546,200	–	–	3,546,200
Remeasurement gains on retirement benefits	–	(7,682,516)	–	(7,682,516)
Net changes in fair values on equity instruments designated at FVOCI	–	–	(2,940,863)	(2,940,863)
BALANCES AT DECEMBER 31, 2019	₱340,360,867	(₱2,775,270)	(₱5,031,068)	₱332,554,529

14. Revenue from Contracts with Customers

Disaggregated Revenue Information

Set out below is the disaggregation of the Group's revenue from contracts with customers for the years ended December 31, 2019 and 2018:

	2019	2018
By type		
Goods	₱2,021,619,872	₱2,573,961,118
Shipping revenue	281,198,172	266,333,289
Others	20,184,025	13,196,971
	₱2,323,002,069	₱2,853,491,378
By customers		
Private	₱2,280,296,736	₱2,816,565,069
Government	38,682,624	34,359,919
Related party (Note 23)	4,022,709	2,566,390
Total revenue from contracts with customers	₱2,323,002,069	₱2,853,491,378

Contract Balances
The Group's trade receivables amounted to ₱450.56 million and ₱561.02 million as at December 31, 2019 and 2018, respectively. The decrease in trade receivables is due to decrease in sales during the year (see Note 6).

The Group's contract liabilities pertain to advanced payments from customers amounting to ₱1.76 million and ₱1.90 million as at December 31, 2019 and 2018, respectively. The decrease in contract liabilities pertain to application to sales orders in 2019.

Set out below is the amount of revenue recognized from:

	2019	2018
Amounts included in contract liabilities at the beginning of the year	₱1,895,065	₱2,977,629
Performance obligations satisfied in previous years	–	–

The Group has no contract assets as at December 31, 2019 and 2018.

Performance Obligations
For the sale of goods, the performance obligation is satisfied upon the delivery of the goods and payment is generally due within 30 to 60 days from delivery.

15. Cost of Goods Sold

	2019	2018	2017
Finished goods and merchandise inventories, January 1	₱146,288,379	₱186,055,454	₱75,875,445
Raw materials used and merchandise purchased (Note 23)	1,123,534,921	1,547,812,986	1,456,778,834
Direct labor	36,352,762	35,813,255	34,945,933
Manufacturing overhead:			
Supplies and facilities	43,366,485	34,422,479	26,847,147
Supervision and indirect labor	42,244,651	41,737,200	39,023,898
Depreciation (Note 10)	40,483,440	72,608,364	81,315,605
Repairs and maintenance	38,313,501	28,087,794	23,167,094
Taxes and licenses	14,782,999	14,702,596	16,801,969
Rent and utilities (Note 22)	7,657,576	6,743,582	6,400,291
Others	41,824,294	36,267,822	31,109,125
Total manufacturing cost and merchandise purchased	1,388,560,629	1,818,196,078	1,716,389,896
Decrease (increase) in work in process inventories	(3,068,307)	3,280,064	(2,885,920)
Cost of goods manufactured and merchandise purchased	1,385,492,322	1,821,476,142	1,713,503,976
Total goods available for sale	1,531,780,701	2,007,531,596	1,789,379,421
Finished goods and merchandise inventories, December 31	(161,096,257)	(146,288,379)	(186,055,454)
	₱1,370,684,444	₱1,861,243,217	₱1,603,323,967

16. Operating Expenses

	2019	2018	2017
Shipping and delivery	₱281,198,172	₱266,333,289	₱238,796,449
Depreciation (Note 10)	39,323,643	32,644,212	33,607,302
Salaries and wages (Note 23)	29,909,633	28,580,392	28,200,497
Rent, light and water (Note 22)	18,750,920	18,787,519	15,508,772
Taxes and licenses	17,993,288	15,606,466	11,164,314
Employee benefits	17,038,716	15,422,660	13,350,206
Supplies	16,958,245	12,863,050	9,925,515
Repairs and maintenance	14,079,502	10,725,700	12,776,420
Professional fees	6,679,546	7,580,006	8,826,426

	2019	2018	2017
Insurance	4,770,283	7,065,059	5,708,842
Retirement benefits costs (Note 18)	4,240,494	5,747,824	7,794,734
Transportation and travel	3,805,324	3,616,913	2,712,329
Communication	2,358,932	2,613,990	2,713,292
Entertainment, amusement and recreation	1,440,704	1,580,536	1,378,501
Provision for contingencies (Note 25)	–	–	20,000,000
Others	17,846,732	9,157,295	8,540,354
	₱476,394,134	₱438,324,911	₱421,003,953

Professional fees include remuneration of some members of the BOD amounting to ₱0.76 million in 2019, ₱0.80 million in 2018 and ₱0.69 million in 2017.

17. Other Income - Net

	2019	2018	2017
Sale of scraps	₱7,873,118	₱117,389	₱71,961
Gain on sale of equipment	315,360	435,351	153,214
Collection of previously written off receivable	–	175,234	175,234
Other service income	–	–	29,895,013
Others – net (Note 25)	201,995	2,588,488	1,643,046
	₱8,390,473	₱3,316,462	₱31,938,468

Others include accretion of interest on notes receivable, rent income, reversal of excess provision for contingencies, docking fee and miscellaneous charges.

18. Retirement Benefits Cost

The Company has a funded, non-contributory defined benefit retirement plan providing for death and retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the plan. The retirement benefits liability is determined according to the plan formula, taking into account the service rendered and compensation of covered employees as of valuation date.

The following tables summarize the components of net retirement expense recognized in the consolidated statements of income, other comprehensive income and the funding status and amounts recognized in the consolidated balance sheets.

The components of retirement benefits cost (income) are as follows:

	2019	2018	2017
Current service cost	₱4,435,397	₱5,217,088	₱5,835,411
Net interest cost (income)	(194,903)	530,736	1,959,323
Retirement expense recognized in profit or loss (Note 16)	4,240,494	5,747,824	7,794,734
Remeasurements recognized in OCI	10,975,023	(5,657,692)	(23,451,914)
Retirement benefit costs (income)	₱15,215,517	₱90,132	(₱15,657,180)

The remeasurements on retirement benefits consists of:

	2019	2018	2017
Gain (loss) on obligation arising from:			
Changes in financial assumptions	(₱14,914,910)	₱11,836,785	₱3,051,768
Experience adjustments	1,488,800	(661,661)	17,161,874
	(13,426,110)	11,175,124	20,213,642
Gain (loss) on plan assets	2,451,087	(5,517,432)	3,238,272
Remeasurement gains (losses)	(₱10,975,023)	₱5,657,692	₱23,451,914

The details of the retirement benefits payable are as follows:

	2019	2018
Present value of defined benefits obligation	₱104,801,110	₱89,932,473
Fair value of plan assets	(104,184,291)	(92,531,171)
Net retirement benefits payable (asset)	₱616,819	(₱2,598,698)

The movements in the retirement benefits payable (asset) are as follows:

	2019	2018
Balances at beginning of year	(₱2,598,698)	₱9,311,170
Retirement benefit costs	15,215,517	90,132
Contributions	(12,000,000)	(12,000,000)
Balances at end of year	₱616,819	(₱2,598,698)

Changes in the present value of retirement benefit obligation are as follows:

	2019	2018
Balances at beginning of year	₱89,932,473	₱97,601,233
Current service cost	4,435,397	5,217,088
Interest cost on benefit obligation	6,744,935	5,563,270
Benefits paid	(9,737,805)	(7,273,994)
Remeasurement loss (gain) on obligation from:		
Change in assumptions	14,914,910	(11,836,785)
Experience adjustments	(1,488,800)	661,661
Balances at end of year	₱104,801,110	₱89,932,473

Changes in the fair value of plan assets are as follows:

	2019	2018
Balances at beginning of year	₱92,531,171	₱88,290,063
Interest income on plan assets	6,939,838	5,032,534
Contributions	12,000,000	12,000,000
Benefits paid	(9,737,805)	(7,273,994)
Remeasurement gain (loss)	2,451,087	(5,517,432)
Balances at end of year	₱104,184,291	₱92,531,171

Actual return (loss) on plan assets is as follows:

	2019	2018	2017
Interest income on plan assets	₱6,939,838	₱5,032,534	₱4,439,664
Remeasurement gain (loss)	2,451,087	(5,517,432)	3,238,272
	₱9,390,925	(₱484,898)	₱7,677,936

The fund is administered by a trustee bank (Trustee). The Trustee is responsible for investment of the assets. The Trustee proposes an investment strategy based on the investment instructions and, as approved, executes such strategy. When defining the investment strategy, the Trustee takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The control, direction, and management of the fund shall reside in and be the sole responsibility of the Trustee.

The major categories of the net plan assets are as follows:

	2019	2018
Cash	1.73%	7.03%
Investments in debt securities:		
Government securities	51.42%	44.74%
Corporate debt securities	19.86%	19.57%
Investments in equity securities:		
Property	6.72%	5.60%
Holding firms	12.09%	14.74%
Bank	3.34%	2.90%

	2019	2018
Telecommunications	1.77%	1.88%
Power and utilities	1.55%	1.89%
Food, beverage and tobacco	0.34%	0.51%
Retail	0.74%	0.86%
Transportation services	0.44%	0.28%
	100.00%	100.00%

The management and its trustee bank reviews the performance of the plan on a regular basis and assesses whether the plan will achieve an investment return which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Company also reviews its solvency position on an annual basis and estimates, through the actuary, the expected contribution to the plan in the subsequent year.

The Company expects to contribute ₱12.00 million in 2020.

The assumptions used to determine retirement benefits obligation as of January 1 are as follows:

	2019	2018	2017
Discount rate	7.50%	5.70%	5.30%
Salary increase rate	6.00%	6.00%	6.00%

The latest actuarial valuation made for the plan was as of December 31, 2019.

As of December 31, 2019, discount rate and salary increase rate are 5.70% and 6.00%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, assuming all other assumptions were held constant:

2019

	Increase (decrease) in rate	Amount
Discount rate		
Assumption 1	+0.5%	(₱3,208,873)
Assumption 2	-0.5%	4,751,809
Future salary increase rate		
Assumption 1	+0.5%	4,389,283
Assumption 2	-0.5%	(2,908,261)

2018

	Increase (decrease) in rate	Amount
Discount rate		
Assumption 1	+0.5%	(₱2,816,855)
Assumption 2	-0.5%	3,004,553
Future salary increase rate		
Assumption 1	+0.5%	2,765,882
Assumption 2	-0.5%	(2,615,474)

The maturity profile of the undiscounted benefits payment as of December 31 follows:

	2019	2018	2017
Not later than one year	₱16,377,631	₱8,775,667	₱8,076,010
Later than one year and not later than five years	42,291,464	55,844,093	41,909,269
Later than five years	66,271,140	57,550,098	57,721,712

19. Income Taxes

a. The current provision for income tax consists of the following:

	2019	2018	2017
Regular corporate income tax	₱148,691,757	₱167,777,868	₱59,709,039
Final tax	8,330,171	2,120,600	1,072,194
	₱157,021,928	₱169,898,468	₱60,781,233

b. The components of the net deferred income tax liabilities of the Group are as follows:

	2019	2018
Deferred income tax assets on:		
Lease liabilities	₱8,992,947	₱–
Net retirement benefits payable and unamortized past service cost	5,958,098	5,363,710
Allowances for:		
Doubtful accounts	2,607,685	2,607,685
Inventory losses	919,537	1,115,511
Other noncurrent liabilities	538,050	538,050
Provision for incentives	167,672	197,048
Deferred lease	17,847	27,584
Accrued leases	–	945,206
	19,201,836	10,794,794
Deferred income tax liabilities on:		
Revaluation increment	145,868,944	144,349,144
Right-of-use assets	8,653,227	–
Premium on notes receivable	83,037	157,690
Unrealized foreign exchange gains	19,767	86,272
Net retirement benefits asset	–	779,609
	154,624,975	145,372,715
Net deferred income tax liabilities	(₱135,423,139)	(₱134,577,921)

The reconciliation of the net deferred income tax liabilities of the Group are as follows:

	2019	2018	2017
Balances at beginning of year	(₱134,577,921)	(₱57,844,053)	(₱44,674,665)
Recognized in profit or loss	(2,617,925)	(4,384,160)	2,674,486
Recognized in OCI	1,772,707	(72,349,708)	(15,843,874)
Balances at end of year	(₱135,423,139)	(₱134,577,921)	(₱57,844,053)

a. A reconciliation of income tax computed at the statutory income tax rate to the provision for income tax reflected in the consolidated statements of income is as follows:

	2019	2018	2017
Income tax at statutory rate	₱157,149,308	₱171,147,777	₱55,463,534
Increase (decrease) in provision for income tax resulting from:			
Interest income subjected to final tax	(4,082,447)	(2,437,326)	(501,682)
Nondeductible expenses	6,572,992	5,572,177	3,144,895
Provision for income tax	₱159,639,853	₱174,282,628	₱58,106,747

20. Financial Risk Management Objectives and Policies

The Group's principal financial assets include trade and other receivables, cash and cash equivalents and short-term investments that are derived directly from operations. The Group's principal financial liabilities comprise of trade and other payables, the main purpose of which is to finance the Group's operations. The Group does not engage in any trading of financial instruments.

The following are the Group's financial assets and liabilities:

	2019	2018
Equity instruments designated at FVOCI:		
Quoted	₱999,915	₱999,915
Unquoted	25,763,502	28,704,365
	26,763,417	29,704,280
Debt instruments at amortized cost:		
Cash in banks and cash equivalents	751,514,762	232,395,852
Short-term investments	422,374,656	594,904,383
Trade and other receivables	451,472,086	562,217,062
Notes receivables - noncurrent	3,849,343	6,409,204
Security and rental deposits*	4,692,322	6,256,632
	1,633,903,169	1,402,183,133
Total financial assets	₱1,660,666,586	₱1,431,887,413
Current	₱1,625,361,504	₱1,389,517,297
Noncurrent	35,305,082	42,370,116
Total financial assets	₱1,660,666,586	₱1,431,887,413
Other financial liabilities:		
Trade and other payables**	₱133,812,002	₱201,754,470
Customers' deposits	22,567,524	22,257,524
Lease liabilities	29,976,491	–
Total financial liabilities	₱186,356,017	₱224,011,994

**Excluding nonfinancial deposits amounting to ₱11,583,463 and ₱9,211,903 as of December 31, 2019 and 2018, respectively.*

***Excluding nonfinancial liabilities amounting to ₱5,760,014 and ₱3,100,854 as of December 31, 2019 and 2018, respectively.*

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group's exposure to equity price risk resulting from changes in the fair value of its investment in equity securities is not significant. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows from the Group's foreign-currency denominated assets or liabilities may fluctuate due to changes in foreign exchange rates.

The Group's exposure to foreign currency risk primarily arises from deposits and placements in foreign currency and importation of finished goods, raw materials and equipment. The Group manages this exposure by matching its receipts and payments for each individual currency. Purchases of finished goods and raw materials are subject to an open account from foreign suppliers and are settled immediately through a purchase of dollars from a local bank at spot rate once all documentation requirements are complete. The Group may also enter into currency forward contracts to manage the currency risks. There are no currency forward contracts outstanding as of December 31, 2019 and 2018.

The foreign currency-denominated financial instruments of the Group as of December 31 are as follows:

	2019	2018
Cash	US$263,462	US$516,679
Trade receivables	145,720	218,678
Trade payables	(7,397)	(1,142,586)
	401,785	(407,229)
Closing exchange rate	50.64	52.58
Peso equivalent	₱20,346,392	(₱21,412,101)

The net foreign exchange losses (gains) amounted to (₱0.07) million in 2019, ₱2.34 million in 2018 and ₱1.40 million in 2017.

The following table shows the effect on income before income tax for the year ended due to a reasonably possible change in foreign currency rates. There is no other impact on the Group's equity other than those affecting net income.

	Increase (decrease) in rate	Effect on income before income tax
2019	1.8%	₱366,199
	(1.8%)	(366,199)
2018	4.5%	(963,544)
	(4.5%)	963,544

The sensitivity analysis takes into account historical movements of Peso in every US$1 foreign exchange rates. The foreign exchange rates amounted to ₱50.64 and ₱52.58 per US$ as of December 31, 2019 and 2018, respectively. The Group assumes parallel upward and downward effect on income due to a reasonably possible change in these foreign exchange rates.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables), including deposits with banks and financial institutions and other financial instruments.

The Group is not exposed to concentration of credit risk. The Group does not have any customer that accounts for more than 10% of its total revenue. It is the Group's policy to require all customers, who wish to trade on credit terms, to comply with and undergo the credit verification process. This process emphasizes on the customer's capacity and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized. The Group deals only with legitimate and duly accredited parties. The maximum credit exposure of the Group's financial assets is equal to their carrying values as of December 31, 2019 and 2018. These financial assets are not supported by any collateral from the counterparties, except for notes receivable which are secured by certain motor vehicles owned by the borrowers.

An impairment analysis is performed using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions. Based on historical experience, the Group's trade receivables are fully collected and no history of write-offs.

Credit risk from balances with banks and financial institutions is managed by the Group's Finance department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Counterparty credit limits are reviewed by the Group's Credit Committee on an annual basis, and may be updated throughout the year subject to the approval of the Group's Vice President for Finance. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The tables below show the credit quality of current accounts and an aging analysis of past due accounts as of December 31, 2019 and 2018.

December 31, 2019

	Current			Past Due				
	High Grade	Standard Grade	Substandard Grade	Over 30 days	Over 60 days	Over 90 days	Impaired Receivables	Total
Cash in banks and cash equivalents	₱751,514,762	₱–	₱–	₱–	₱–	₱–	₱–	₱751,514,762
Short-term investments	422,374,656	–	–	–	–	–	–	422,374,656
Trade receivables								
Private	134,116,970	296,308,354	5,124,972	345,156	–	–	8,664,637	444,560,089
Government	363,964	4,655,871	–	532,176	–	–	27,645	5,579,656
Related party	418,962	–	–	–	–	–	–	418,962
Notes receivable	6,409,204	–	–	–	–	–	–	6,409,204
Interest and other receivables	7,045,800	–	–	–	–	–	–	7,045,800
Security and rental deposits*	4,692,322	–	–	–	–	–	–	4,692,322
	₱1,326,936,640	₱300,964,225	₱5,124,972	₱877,332	₱–	₱–	₱8,692,282	₱1,642,595,451

**Excluding nonfinancial deposits amounting to ₱11,583,463.*

December 31, 2018

	Current			Past Due				
	High Grade	Standard Grade	Substandard Grade	Over 30 days	Over 60 days	Over 90 days	Impaired Receivables	Total
Cash in banks and cash equivalents	₱232,395,852	₱–	₱–	₱–	₱–	₱–	₱–	₱232,395,852
Short-term investments	594,904,383	–	–	–	–	–	–	594,904,383
Trade receivables								
Private	180,734,022	324,143,543	6,472,982	36,918,686	–	–	8,664,637	556,933,870
Government	–	3,901,339	–	26,573	–	–	27,645	3,955,557
Related party	130,462	–	–	–	–	–	–	130,462
Notes receivable	8,895,628	–	–	–	–	–	–	8,895,628
Interest and other receivables	7,403,031	–	–	–	–	–	–	7,403,031
Security and rental deposits*	6,256,632	–	–	–	–	–	–	6,256,632
	₱1,030,720,010	₱328,044,882	₱6,472,982	₱36,945,259	₱–	₱–	₱8,692,282	₱1,410,875,415

**Excluding nonfinancial deposits amounting to ₱9,211,903.*

High grade receivables consist of receivables from customers and other parties with good credit standing and with a history of no delay in payments. Standard grade receivables are those from customers with history of slight delay in payments. Substandard grade receivables, on the other hand, are receivables from customers with a history of recurring delayed payments. The Group constantly monitors the receivables in order to identify any potential adverse changes in the credit quality. Short-term placements and cash in banks are maintained in banks duly approved by the BOD. Credit impaired receivables pertaining to individually impaired receivables are fully provided with allowance for doubtful accounts.

Liquidity risk
Liquidity risk arises when a company encounters difficulties in meeting commitments associated with financial instruments. Such risk may result from inadequate market depth, disruption or refinancing problems.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and purchase contracts. The Group also has existing credit lines with local banks which could be drawn when necessary.

The tables below summarize the maturity profile of the Group's financial liabilities and financial assets used to manage liquidity as of December 31, 2019 and 2018:

December 31, 2019

	On-demand	Up to a year	1-3 years	More than 3 years	Total
Financial liabilities:					
Trade and other payables*	₱–	₱133,812,002	₱–	₱–	₱133,812,002
Customers' deposits	22,567,524	–	–	–	22,567,524
Lease liabilities	–	6,946,449	10,805,014	21,070,528	38,821,991
	22,567,524	140,758,451	10,805,014	21,070,528	195,201,517
Financial assets:					
Cash on hand and in banks	100,488,841	–	–	–	100,488,841
Cash equivalents**	–	656,745,211	–	–	656,745,211
Short-term investments**	–	426,124,277	–	–	426,124,277
Trade receivables				–	
Private	–	435,895,452	–	–	435,895,452
Government	–	5,552,011	–	–	5,552,011
Related party	–	418,962			418,962
	100,488,841	1,524,735,913	–	–	1,625,224,754
Excess of financial assets over financial liabilities	₱77,921,317	₱1,383,977,462	(₱10,805,014)	(₱21,070,528)	₱1,430,023,237

**Excluding nonfinancial liabilities amounting to ₱5,760,014.*
***Including interest until maturity*

December 31, 2018

	On-demand	Up to a year	1-3 years	More than 3 years	Total
Financial liabilities:					
Trade and other payables*	₱–	₱201,754,470	₱–	₱–	₱201,754,470
Customers' deposits	22,257,524	–	–	–	22,257,524
	22,257,524	201,754,470	–	–	224,011,994
Financial assets:					
Cash on hand and in banks	126,411,442	–	–	–	126,411,442
Cash equivalents**	–	108,266,014	–	–	108,266,014
Short-term investments**	–	603,997,584	–	–	603,997,584
Trade receivables				–	
Private	–	548,269,233			548,269,233
Government	–	3,927,912			3,927,912
Related party	–	130,462	–	–	130,462
	126,411,442	1,264,591,205	–	–	1,391,002,647
Excess of financial assets over financial liabilities	₱104,153,918	₱1,062,836,735	₱–	₱–	₱1,166,990,653

**Excluding nonfinancial liabilities amounting to ₱3,100,854.*
***Including interest until maturity*

<u>Capital Management</u>

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to externally imposed capital requirements.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2019 and 2018. The Group was able to meet its capital management objectives as of December 31, 2019 and 2018.

For the purpose of capital management, the Group's capital consists of:

	2019	2018
Common stock	₱661,309,398	₱661,309,398
Additional paid-in capital	176,594,308	176,594,308
Retained earnings:		
Appropriated	700,000,000	700,000,000
Unappropriated	626,830,220	309,689,586
	₱2,164,733,926	₱1,847,593,292

21. **Fair Value**

<u>Fair Value</u>

Due to the short-term nature of the transactions, the carrying value of cash in banks and cash equivalents, short-term investments, trade and other receivables, customers' deposits, and trade and other payables approximate their fair values.

The following table sets forth the carrying values and estimated fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	2019				
	Carrying Value	Fair Value	Quoted prices in active market (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Measured at fair value					
Equity instruments designated at FVOCI					
Quoted	₱999,915	₱999,915	₱–	₱999,915	₱–
Unquoted	25,763,502	25,763,502	–	–	25,763,502
Land at appraised value	499,736,000	499,736,000	–	–	499,736,000
Assets for which fair values are disclosed					
Debt instruments at amortized cost					
Security and rental deposits*	4,692,322	4,182,614	–	4,182,614	–
Notes receivable	6,409,204	6,436,481	–	6,436,481	–
	₱537,600,943	₱537,118,512	₱–	₱11,619,010	₱525,499,502

**Excluding nonfinancial deposits amounting to ₱11,583,463 as of December 31, 2019.*

	2018				
	Carrying Value	Fair Value	Quoted prices in active market (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Measured at fair value					
Equity instruments designated at FVOCI					
Quoted	₱999,915	₱999,915	₱–	₱999,915	₱–
Unquoted	28,704,365	28,704,365	–	–	28,704,365
Land at appraised value	494,670,000	494,670,000	–	–	494,670,000
Assets for which fair values are disclosed					

2018					
	Carrying Value	Fair Value	Quoted prices in active market (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Debt instruments at amortized cost					
Security and rental deposits*	6,256,632	4,626,055	–	4,626,055	–
Notes receivable	8,895,628	8,506,451	–	8,506,451	–
	₱539,526,540	₱537,506,786	₱–	₱14,132,421	₱523,374,365

**Excluding nonfinancial deposits amounting to ₱9,211,903 as of December 31, 2018.*

Reconciliation of fair value measurements categorized within Level 3 is disclosed in Notes 9 and 10.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Security, rental deposits and notes receivable
The fair value of security and rental deposits have been calculated as the sum of all future cash flows, discounted using prevailing market rate of interest for instruments with similar maturities (Level 3).

Quoted financial assets
The fair values of publicly traded instruments and similar investments are based on quoted bid prices (Level 1). For investments in golf shares, fair value is based on any prices within the lower selling quotes and higher buyer quotes as of balance sheet dates (Level 2).

Unquoted financial assets
The fair value of the investment in unquoted equity instruments as of December 31, 2019 and 2018 was based on adjusted net asset value approach (Level 3). The Company believes that the net asset value represents the fair value as of balance sheet date. The unobservable inputs used in the valuation pertain to the fair values of identifiable assets and liabilities of the investee company and discount for lack of marketability. The decrease (increase) in fair value of unquoted financial assets assuming an increase (decrease) in discount for lack of marketability of +10% (-10%) amounted to ₱2,407,900 and (₱2,407,900), respectively, as of December 31, 2019 while ₱2,870,436 and (₱2,870,436), respectively, as of December 31, 2018.

Land of a subsidiary at appraised value
The fair value of the land is determined by external, independent property appraisers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being appraised. The appraised value as of December 31, 2019 and 2018 was determined using the Market Approach wherein the market prices for comparable property listings are adjusted to account for the marketability, nature, bargaining allowance, location and size of the specific properties (Level 3). Significant increases (decreases) in the estimated price per square meter in isolation would result in a significantly higher (lower) fair value. The valuation considers an industrial land development as the highest and best use of the properties.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting date. There were no transfers between Level 1 and Level 2 in 2019, 2018 and 2017.

22. Leases

The Company has various noncancellable operating lease agreements covering its office spaces, parking slots, warehouse, storage tanks, piping system, pumps, and bulk storage and handling facilities with remaining lease terms ranging from 1 year to 9 years. These leases are renewable upon mutual agreement of the parties and subject to escalation at a rate of 2.5% to 6.5% annually.

Set out below, are the amounts recognized in the statement of income.

	2019	2018	2017
Depreciation expense of right-of-use assets	₱7,117,842	₱–	₱–
Interest expense on lease liabilities	2,246,545	–	–
Included under "Operating expenses"			
Rent expense - short-term leases	15,067,088	–	–
Rent expense - PAS 17	–	14,986,217	12,255,140
	₱24,431,475	₱14,986,217	₱12,255,140

Total cash outflow for leases amounted to ₱23.51 million in 2019.

The covering agreements of these leases require the Company to pay certain amounts of security and rental deposits, which are included under "Other noncurrent assets" in the consolidated balance sheets. The related security deposits amounted to ₱16.28 million and ₱15.47 million as of December 31, 2019 and 2018, respectively (see Note 11).

Set out below, is the rollforward analysis of lease liabilities during the year ended December 31, 2019:

As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (Note 2)	34,426,705
At January 1, 2019, as restated	34,426,705
Non-cash changes:	
Additional	1,749,967
Interest expense	2,246,545
Payments:	
Principal portion	(6,200,181)
Interest	(2,246,545)
	29,976,491
Less current portion	4,818,231
Noncurrent portion	₱25,158,260

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2019:

Within one year	₱6,946,449
More than 1 years to 2 years	6,435,482
More than 2 years to 3 years	4,369,532
More than 3 years to 4 years	4,488,513
More than 5 years	16,582,015

23. **Related Party Transactions**

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with a least a majority of the independent directors voting to approve the material related party transactions. In the event that the majority of the independent directors' vote is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. Material related party transactions refer to any related party transaction, either individually or in the aggregate over a twelve-month period with the same related party, with an amount equivalent to at least 10% of the Group's consolidated assets.

Outstanding balances and transactions with related parties are as follows:

Related parties	Nature	Year	Volume	Outstanding Balance	Terms and Conditions
Stockholders					
Mitsubishi Corporation	Purchases	**2019**	**₱117,364,107**	**₱–**	Unsecured, payable 30 days from date of bill of lading; to be settled in cash
		2018	372,978,070	–	
		2017	771,152,033	–	
Tosoh Corporation	Purchases	**2019**	**431,818,346**	–	
		2018	424,715,076	–	
		2017	–	–	
Retirement fund	Investment in MPI	**2019**	**₱–**	**₱7,750,000**	Guaranteed dividends equivalent to T-Bill Rate plus 300 basis points subject to declaration by the MPI's BOD
Mabuhay Vinyl Corporation -		2018		7,750,000	
Retirement Fund		2017		7,750,000	
Entity under common control					
Philippine Resins Industries, Inc.	Sales	**2019**	**4,022,709**	**418,962**	Unsecured; 30 days; non-interest-bearing
		2018	2,566,390	130,462	
		2017	2,671,239	439,726	

a. Mitsubishi Corporation
The Company purchases inventories from Mitsubishi based on agreed commercial terms and conditions.

b. Tosoh Corporation
The Company purchases inventories from Tosoh based on agreed commercial terms and conditions.

c. MVC Properties, Inc.
The Company has a 10-year lease agreement with MPI (see Note 22). The Company also granted noninterest-bearing advances to MPI amounting to ₱2.05 million in 2019 and ₱1.57 million in 2018 to finance MPI's working capital requirements. These advances were partially offset against the rental due to MPI amounting to ₱2.64 million in 2019 and 2018. Outstanding balances from these transactions amounted to ₱2.75 million and ₱2.03 million liability as of December 31, 2019 and 2018, respectively. These intercompany transactions were eliminated upon consolidation.

d. Mabuhay Vinyl Corporation - Retirement Fund
As of December 31, 2019 and 2018, the Company's defined benefit retirement fund has investments in the shares of stock of MPI with a cost of ₱7.75 million. No gain was recognized by the fund in relation to the investment. The Company's retirement fund is being managed by a trustee bank. All of the fund's investing decisions are made by the trustee bank. The power to exercise the voting rights rests with the representative from the trustee bank.

On December 18, 2009, the Company and Mabuhay Vinyl Corporation - Retirement Fund (MVC-RF) executed a Shareholder's Agreement (the Agreement) with respect to their investment in MPI. Among others, the Agreement provides for the following:

i. MPI's authorized capital stock comprises (a) 5,140,000 Common A shares with par value of ₱30.00 and (b) 7,800,000 Common B shares with ₱1.00 par value. The Company will own shares not exceeding 40% of the outstanding capital stock of MPI and MVC-RF will own at least 60%.

ii. The Common A and Common B shares have full voting rights and shall enjoy the same rights and privileges, except as follows:
   - Each common B shares earns a fixed annual dividend (Guaranteed Preferred Dividend or GPD) which, upon declaration of MPI's BOD, is payable within 60 days from the close of the calendar year. The annual GPD is computed using PDST-R2 one year Treasury Bill rate plus 300 basis points upon payment by MVC-RF of its subscription. Accumulated GPD amounted to ₱1,659,664 and ₱900,783 as of December 31, 2019 and 2018, respectively.
   - Undeclared/unpaid GPD shall, in addition to and on top of the GPD, earn a bonus dividend.
   - The GPD shall be guaranteed and cumulative.
   - The Common B shares, other than the GPD and other payments related thereto, shall not participate in net earnings of MPI.
   - In the event that MPI is liquidated or dissolved, MVC-RF, as holder of the Common B shares, shall be entitled to be paid in full the accrued and unpaid GPD, plus the par value of such Common B shares; provided that, whatever is left as residual assets of MPI shall be used to pay the value of the Common A shares.

iii. The right of MVC-RF, as holder of Common B shares, to petition for the redemption of the shares is recognized and guaranteed.

iv. The Company shall designate or appoint the personnel who will be responsible for the day-to-day operations of MPI.

v. The Common B shares are redeemable at the option of MPI (the issuer).

e. Philippine Resins Industries, Inc. (PRII)
The Company sells finished goods to PRII, a fellow subsidiary of Tosoh Corporation, based on agreed commercial terms and conditions.

On February 7, 2020, the Company entered into a loan agreement with PRII amounting to ₱240 million for a period of six months, which may be extended upon mutual agreement of both parties. The loan is subject to an interest rate based on the Philippine BVAL Reference Rate Tenor of one month, as published by the Bankers Association of the Philippines, plus 0.50% per year.

f. The compensation of key management personnel follows:

	2019	2018	2017
Short-term employee benefits	₱9,758,814	₱9,394,796	₱9,175,752
Retirement benefits (Note 18)	348,901	482,076	653,752
	₱10,107,715	₱9,876,872	₱9,829,504

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

24. Basic/Diluted Earnings Per Share

	2019	2018	2017
Net income attributable to the equity holders of the Company (a)	₱363,432,293	₱395,743,373	₱126,337,507
Weighted average number of shares outstanding (Note 13) (b)	661,309,398	661,309,398	661,309,398
Basic/Diluted earnings per share (a/b)	₱0.550	₱0.598	₱0.191

25. Commitments, Provisions and Contingencies

a. Unused Credit Lines

As of December 31, 2019, and 2018, the Group has unused credit lines amounting to ₱920.53 million and ₱925.27 million, respectively.

b. Provisions

Provision for contingencies pertains to provisions made for various assessments, claims and litigations involving the Group in the ordinary course of business. The timing and amount of the cash outflows were uncertain then as they depended upon the outcome of the Group's negotiations and/or legal proceedings which were ongoing with the parties involved as of December 31, 2017. Disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiating strategy. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* only general descriptions were provided.

Movements of provision for contingencies for the year ended December 31, 2018 follow:

Balances at beginning of year	₱20,000,000
Settlement	(18,231,429)
Reversal (Note 17)	(1,768,571)
Balances at end of year	₱–

c. Contingencies

The Group, in the normal course of business, is subject to periodic examinations by tax authorities and is involved in various labor and other legal cases either as the defendant or plaintiff. The Group, together with its counsels, believes that the outcome of these cases will not have a material effect on the consolidated financial statements.

26. Summarized Financial Information of MPI

The summarized significant financial information of MPI as at and for the years ended December 31 follow:

	2019	2018	2017
Total current assets	₱39,022,228	₱37,086,391	₱35,493,813
Total noncurrent assets	153,945,450	153,945,450	153,945,450
Total current liabilities	3,537,343	142,825	45,669
Total equity	189,430,335	190,889,016	189,393,594
Total equity attributable to non-controlling interest	9,642,836	8,883,956	8,417,367
Rental income	2,643,096	2,643,096	2,643,096
Net income (loss) /total comprehensive income (loss)	(1,458,681)	1,495,422	507,620
Net income/total comprehensive income attributable to non-controlling interest	758,880	466,589	434,194
Cash dividends declared and paid	–	–	(2,993,522)

	2019	2018	2017
Net cash flows from (used in) operating activities	1,817,027	1,389,282	(32,588,679)
Net cash flows from (used in) investing activities	35,734,820	(33,454,118)	484,394
Net cash flows used in financing activities	(2,049,647)	(1,572,897)	(3,824,939)

There is no significant restrictions on the ability of MPI to transfer funds to the Company in the form of dividends, payment of advances, among others.

27. Segment Information

The Group is engaged in manufacturing and distributing basic and intermediate chemicals and considers such as its primary activity and only operating segment. Management monitors the operating results (net sales and net income) of the Group for the purpose of making decisions about resource allocation and performance assessment.

Net sales, net income, total assets and total liabilities as of and for the years ended December 31, 2019, 2018, and 2017 are the same as reported elsewhere in the financial statements.

Segment information for this reportable business segment is shown in the following table (amounts in millions):

	2019	2018	2017
Revenue from contracts with customers	₱2,323	₱2,853	₱–
Sale of goods	–	–	2,173
Net income	364	396	127
Total assets	2,872	2,599	1,932
Total liabilities	365	403	279
Interest income	42	16	5
Income taxes	160	174	58
Depreciation and amortization	80	105	115
Capital expenditures	108	68	108

28. Notes to Consolidated Statements of Cash Flows

The non-cash investing and financing activities follow:

	2019	2018	2017
Investing activities:			
Changes in fair value of equity instruments designated at FVOCI	(₱2,940,863)	₱2,433,541	₱–
Transition adjustment on right-of-use assets	34,211,965		
Addition to right-of-use assets	1,749,967	–	–
Financing activities:			
Transition adjustment on lease liabilities	34,426,705	–	–
Addition to lease liabilities	1,749,967	–	–
Accretion of lease liabilities	2,246,545	–	–

UN GLOBAL COMPACT INITIATIVES

2019 Communications on Progress Report

As one of the pioneer signatories in the Philippines and supporter of the UN Global Compact principles, Mabuhay Vinyl Corporation (MVC) continues to uphold its commitment to support initiatives of the UN Global Compact.

Mr. Takahiro Machiba and Mr. Edwin Ll. Umali, MVC Chairman/Chief Executive Officer and MVC President/Chief Operating Officer, respectively, reiterate the Company's support to further strengthen the UN Global principles through the Company's various programs and activities, as contained in the following Progress Reports / Updates for 2019:

Principles	Policies, Actions and Performance Indicators
HUMAN RIGHTS Principle 1: Support and respect the protection of International Human Rights within MVC's sphere of influence	*In keeping with this principle, the following activities were undertaken:* • Donated school supplies to 69 children during the Flores De Mayo celebration in Sitio Tonggo, Buru-un Iligan City. • Conducted a summer Do-It-Yourself workshop for children of Purok 1 & 2 of Sitio Tonggo and Purok 13 of Timoga Buru-un where they were taught to make a paper bag and pencil holder respectively. • Medical Mission was conducted on May 19, 2019, at Purok 1 & 2, Tonggo, Buru-un, Iligan City in cooperation with Adventist Medical Center with 104 beneficiaries receiving free consultations, medicines and circumcision for 42 boys. • Participated in PBSP's Bridaga Eskwela (covering of student workbooks) on May 25, 2019, at the Capt. A. Alberto Elementary School, Las Piñas City • Repair of ceiling and wall division of 3 classrooms at Iligan City National School of Fisheries, Bgy. Buru-un and donation of whole drums and ½ drum for organic farming, aqua phonics and fish cage on June 22, 2019. • Cash donation for school supplies at Sardab Elementary School, Bgy. Digkilaan in participation to the Department of Labor & Employment initiatives and member companies of FFWC (Angel Tree Project) distributed on June 7, 2019. • Donated cleaning materials (brooms, dustpans, and ½ drums for garbage bins) to Ditucalan Elementary School and Napocor Elementary School. • Renovation, repair & repainting ceiling, walls, window jambs, window grills, door and comfort room of Francisco Paradela Memorial Elementary School.
Principle 2: Make sure MVC is not complicit in human rights abuses	• Sponsorship of eight (8) MVC Scholars by giving school supplies, bags, shoes, socks, umbrella/ raincoat, uniform and school fees using the funds accumulated through "My Voluntary Contribution" drive of Iligan based employees. • Distributed school supplies to pre-school pupils and donated two (2) industrial fans at Bauan Day Care Center on June 20, 2019. • Organized a medical mission and dengue awareness activity at Purok 2 Tonggo, Buru-un on August 18, 2019, where 84 patients have availed of the free clinic services and free medicines. • Donated new and slightly used books/children's reading materials to Sgt. Miguel Canoy Memorial School, Buruun, Iligan City for their "Book Shower Program" on September 25, 2019. • Conducted Outreach Program at Our Lady of Perpetual Help – Caysasay Children's Home in Taal, Batangas on September 12, 2019 and donated groceries and four (4) sacks of rice. • Conducted various health talks for employees both in Iligan and Luzon with topics ranging from Prostate and Ovarian cancer, Depression, Dengue Awareness, Office Ergonomics, Cholesterol and Blood Sugar. • Organized a medical mission at Purok 13, Timoga, Brgy. Buru-un on October 6, 2019, with 60 children and 49 adults as beneficiaries. • Conducted a Medical and Dental Mission on November 29, 2019, in Barangay San Miguel, Bauan, Batangas. 184 beneficiaries who received free doctors' consultation and medicines and children received free dental check-up, fluoride treatment and dental kits. Distributed to beneficiaries and medical team of Bauan Municipal Health Office, 200 packs of cleaning agents donated by Peerless Inc., a customer of MVC. • Conducted Brigada Eskwela on December 13 at various schools in Iligan: ✓ DNHS – Hindang High School where materials for painting classrooms and garbage bins were donated. ✓ Bunawan Agricultural High School where 200 student-beneficiaries received medicines and dental kits. • Conducted a "Pamaskong Handog" an annual activity for children from Purok 1 & 2, Tonggo and Purok 13, Timoga, Iligan City.

	• Donations of the following: ✓ Corrugated sheets and plywood for Paglingkawas Livelihood Store at Purok 2, Sitio Tonggo, Buru-un. ✓ PVC pipes and flanges for the BUWASA pipeline project of Brgy. Buru-un. ✓ Drums for irrigation use to Sikyop Agri-Eco-Tourism Multi-Purpose Cooperative, Sitio Lawlawon, Brgy. Rogongon. ✓ Sodium Hypocholorite to AFP 1st Division, Pulakan, Pagadian City.
LABOR Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining	• Through the Industrial Peace Council (IPC) and the Corporate Council on Quality, Safety, Security, Health and Environment (CCOQSSHE) in Iligan and the Council of Solidarity (COS) in Makati, MVC management and employees continually address issues and concerns and collaborate in forging solutions on health and overall plant safety concerns, employee and family welfare, solutions to work problems and means towards process improvements. • Employee complaints and grievances are addressed via the Company's established Grievance Procedures and bound by the Company's Employee Handbook on Rules and Discipline. • MVC supports the active participation and attendance of Union Officers and workers to activities initiated by the Union Federation as well as programs, training, general assemblies, community outreach and the like organized by the Department of Labor and Employment-Federation of Family Welfare Committees (DOLE-FFWC), Tripartite Industrial Peace Council (TIPC), Labor-Management Cooperation – Voluntary Arbitration Advocates, Inc. (LMC-VAA, Inc.) of the National Conciliation and Mediation Board (NCMB), etc. • MVC ensures implementation of the provisions of the Collective Bargaining Agreement entered into with the R&F Union (MVEU-FDLO) and the Supervisory Union (MVSU).
Principle 4: Elimination of all forms of forced and compulsory labor	• Participated in the DOLE Joint Assessment / Compliance Audit with Union representatives including Contractors with existing contracts or agreements with MVC. No Violation on General Labor Standards (GLS) and Occupational, Safety and Health (OSH) were given to MVC per Notice of Results.
Principle 5: Effective abolition of child labor	• Reinforced child protection and child-friendly environment policy and worksite programs on recruitment and employment, working environment and continuing education. • MVC regularly inspects and ensures that contractors and suppliers do not engage in forced labor and the hiring of minors.
Principle 6: Elimination of discrimination in respect of employment and occupation	• MVC ensures that individuals are not being discriminated nor treated any less favorably because of a 'protected characteristic'—age, disability, marital or civil partner status, pregnancy or maternity, race, (including color, nationality and ethnic or national origins) religion or belief, gender or sexual orientation. • Job opportunities are circulated as widely as reasonably possible and recruitment advertisements do not use wording that implies a preference against any one of the above-mentioned protected characteristics. • Health Talk and Awareness Information Drive on HIV/AIDS, Pulmonary Tuberculosis, Hepatitis B and Lifestyle diseases were conducted with an emphasis on non-discrimination policy in the workplace.
ENVIRONMENT Principle 7: Support a precautionary approach to environmental challenges	• Participated in the International Coastal Cleanup activity on September 21, 2019, and in line with Iligan City's Diyandi Festival activities for the month of September. A total of 123 MVC employees, contractors and coastal residents joined in the coastal cleanup. • Organized a Tree Planting Activity at the Ipo Dam Watershed on July 7 and October 6, 2018, in partnership with Maynilad Water Services where a total of 200 seedlings were planted per scheduled date. • Disaster/emergency preparedness drills were conducted regularly as a precautionary approach to environmental challenges.
Principle 8: Undertake initiatives to promote greater environmental responsibility Principle 9: Encourage the development and diffusion of environmentally friendly technology	• The Iligan Plant and Mabuhay Premium Bleach Plant's (MPBP) Environmental Management System were certified as compliant to ISO 14001:2015 by TUV-SUD as well as the issuance of certificates were recommended by TUV-SUD for the Corporate Quality Management System and Iligan Plant's Occupational Safety and Health Management Systems. • The Iligan Manufacturing Plant's continual improvement in operations systems resulted to cost reduction and lesser CO_2 emissions, such as brine recovery of systems losses, utilization of hydrogen as a fuel to minimize the use of low sulfur bunker fuel and use of 32% NaOH instead of 50% NaOH in hypo production to minimize steam consumption, among others. • Implements environmentally-aligned programs such as a *No Plastic Policy* Program in the canteen. • Lakbay Linis", a company-wide cleanup campaign, was sustained every quarter as part of MVC's Good Housekeeping (GH) program to promote environmental responsibility among employees and contractors. The program included GH & safety audits in all plant areas.
ANTI-CORRUPTION Principle 10: Work against corruption in all its forms, including extortion and bribery	• MVC's Code of Business Conduct provides that every employee is expected to faithfully comply with and perform his tasks and shall not allow himself to be placed in a situation that will cast doubt upon his loyalty to the company or invite any opportunity to compromise his fidelity. • Contracts and Purchase Orders entered into by MVC contain a provision on anti-corruption. Suppliers and contractors warrant that no consideration or compensation was offered to any MVC employee, nor did he/she exert any corrupt or unlawful influence to secure the purchase order or contract; and that he/she will comply with government laws and regulations in the conduct of business.

MVC BOARD OF DIRECTORS

TAKAHIRO MACHIBA
President
Philippine Resins Industries, Inc.
Mezzanine Floor
Citibank Tower
8741 Paseo de Roxas
Makati City

YASUHIRO FUKUKI
Division Head, Chemical Div.
Manila Branch
Mitsubishi Corporation
Locsin Bldg., Ayala Ave. cor. Makati Ave., Makati City

JOSE O. JULIANO
President
Calamba Medical Center
Calamba, Laguna

BARBARA ANNE C. MIGALLOS
Managing Partner
Migallos Luna Law Offices
7th Floor Phinma Plaza
39 Plaza Drive, Rockwell Center
Makati City

RENATO N. MIGRIÑO
Treasurer
Apex Mining Co. Inc.
West Tower PSE Centre,
Exchange Road, Ortigas Center
Pasig City

TAKAYUKI NAKAMURA
Manager
Corporate Strategy
Tosoh Corporation
Tokyo, Japan

EDWIN LI. UMALI
President & Chief Operating Officer
Mabuhay Vinyl Corporation
Philamlife Salcedo Bldg.
Leviste St., Salcedo Village
Makati City

Members of Various Committees

Executive Committee
Takahiro Machiba – Chairman
Yasuhiro Fukuki
Edwin Ll. Umali

Audit Committee
Jose O. Juliano – Chairman (Independent Director)
Takahiro Machiba
Barbara Anne C. Migallos
Renato N. Migriño (Independent Director)

Executive Compensation Committee
Takahiro Machiba – Chairman
Renato N. Migriño (Independent Director)
Yasuhiro Fukuki

Nominations Committee
Jose O. Juliano – Chairman (Independent Director)
Takahiro Machiba
Barbara Anne C. Migallos

Company Officers

Takahiro Machiba
Chairman & Chief Executive Officer

Edwin Ll. Umali
President & Chief Operating Officer

Michael S. Yu
Treasurer / Vice President – Corporate Planning

Romeo G. dela Cruz
Vice President – Marketing

Ryo Kobayashi
Vice President - Finance

Steve SC. Pangilinan
Vice President – Manufacturing

Ma. Melva E. Valdez
Corporate Secretary

Myla Gloria A. Amboy**
Assistant Corporate Secretary

Stephanie Maree N. Dysangco*
Assistant Corporate Secretary

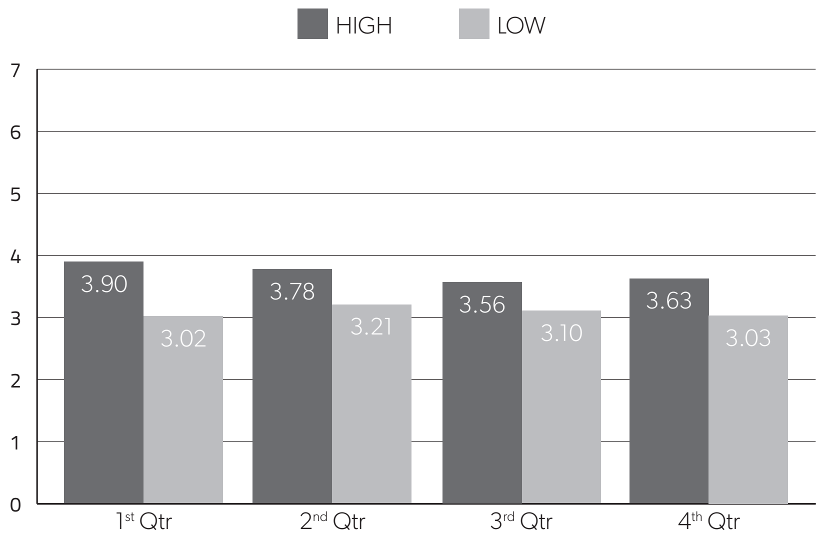
*Started June 27, 2019
**Until May 23, 2019

INVESTOR INFORMATION

MARKET PRICE PER SHARE

661,309,398

Shares issued & outstanding



CORPORATE HEAD OFFICE

3rd Floor, Philamlife Salcedo Building
126 L.P. Leviste St., Salcedo Village 1227 Makati City, Philippines
Tel. Nos. (632) 8817 8971 to 76
Fax Nos. (632) 8816 4785

COMMON STOCK

The Company's authorized capital stock is composed of 1,072,942,532 common shares with a par value of One Peso (P1.00) each.

STOCKHOLDERS' MEETING

The 2020 Stockholders' Meeting will be held on June 18, 2020, 3:00 p.m. via virtual meeting.

STOCKHOLDER SERVICE AND ASSISTANCE

For inquiries regarding dividend payments, account status, lost or damaged stock certificates and change of address, please write or call the Company's Stock Transfer agent.

BANCO DE ORO

Stock Transfer Department
15th Floor, South Tower
BDO Corporate Center
7899 Makati Avenue
Makati City 0726, Philippines
Tel +63(2) 8878 4052
Tel +63(2) 8878 4964
Fax +63(2) 8878 4056
BDO Trunkline +63(2) 8840 7000

SEC FORM 17-A REPORT

The Financial Information in this report, in the opinion of the management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission.

Copies of this report may be obtained upon request from the Corporate Secretary.

Banks
Banco de Oro Unibank, Inc.
Bank of the Philippine Islands
Mizuho Corporate Bank, Ltd. Manila Branch
MUFG Bank, Ltd. Manila Branch

External Auditor
SyCip Gorres Velayo & Co.

Trustee
Banco de Oro Unibank, Inc.

Legal Consultant
JGLaw • Padilla Law Office

Directory
Corporate Head Office
3rd Floor, Philamlife Salcedo Bldg.
126 L.P. Leviste St., Salcedo Village
1227 Makati City, Philippines

Tel Nos. : (632) 8817 8971 to 76
Fax No. : (632) 8816 4785
E-mail : filvinyl@mvc.com.ph
Website : www.mvc.com.ph

Iligan Plant
Assumption Heights,
Buru-un, Iligan City 9200
Philippines

Tel Nos. : (063) 221 3180
: (063) 221 1190
: (063) 221 5757
: (063) 221 2736
Fax Nos. : (063) 221 1753
: (063) 221 9466
: (063) 221 9467
: (063) 221 5756

Premium Bleach Plant
109 Commerce Road, Laguna Technopark, Inc. (LTI)
Bgy. Malamig, Biñan, Laguna Philippines

Tel. No. : (049) 541 1923
Fax No. : (049) 541 1922

Batangas Depot
BBTI Compound Bgy. San Miguel, Bauan, Batangas
Tel. No. : (043) 980 5349
Fax No. : (043) 980 5870

Cebu Depot
Ouano Reclamation Area, Mandaue City, Cebu
Tel. No. : (032) 345 0693
Fax No. : (032) 346 0566

Davao Depot
Pacific Oil Farmers, Inc. Compound
Km. 23, Bunawan, Davao City
Tel. No. : (082) 236 0015

Negros Depot
Pulupandan, Negros Occidental