

## Certification

I, Annabelle T. Abunda, Compliance Officer of Wellex Industries, Inc., with SEC registration number 0000011790 with principal office at 35<sup>th</sup> Flr. One Corporate Center, Dona Julia Vargas, cor. Meralco Ave., Ortigas Center, Pasig City, on oath state:

- 1) That on behalf of Wellex Industries, Inc., I have caused this Definitive Information Statement (DIS) SEC Form IS-20 to be prepared;
- 2) That I read and understood its contents which are true and correct of my own personal knowledge and/or based on true records;
- 3) That the company, Wellex Industries, Inc., will comply with the requirements set forth in SEC Notice dated June 24, 2020 for a complete and official submission of reports and/or documents through electronic mail; and
- 4) That I fully aware that documents filed online which requires pre-evaluation and/or processing fee shall be considered complete and officially received only upon payment of a filing fee.

IN WITNESS WHEREOF, I have hereunto set my hands this SEP 28 2020 day of \_\_\_\_\_, 2020.



Affiant

TIN: 205-231-659

SUBSCRIBED AND SWORN to before me this SEP 28 2020 day of QUEZON CITY, 2020.

NOTARY PUBLIC

**ATTY. JOSE FLOR P. CRISOLOGO**

Notary Public

Until December 31, 2021

PTR No. 9270054-C-01-02-2020

IBP Lifetime No. LRN-03688/05-2004

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**WELLEX INDUSTRIES, INC.**  
LISTED IN THE PHILIPPINE STOCK EXCHANGE

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WELLEX INDUSTRIES, INC.

**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

Notice is hereby given that the annual meeting of stockholders of the WELLEX INDUSTRIES, INC. will be held on 27 October 2020, Tuesday, at 2:00 P.M. In light of the COVID-19 pandemic and to ensure the safety and welfare of our stockholders, the meeting will be conducted virtually via secure online meeting platform to pass upon the matters:

1. Call the Order
2. Certification of Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held in 2019
4. Presentation of the President's Report and Annual Audited Financial Statement for 2019
5. Confirmation of All Acts of the Board of Directors, Management and Committees
6. Election of the members of the Board of Directors
7. Appointment of the External Auditor
8. Appointment of the External Counsel
9. Other Matters
10. Adjournment

Stockholders of record as of 30 September 2020 shall be entitled to vote at the Meeting.

**PARTICIPATION ONLY VIA REMOTE COMMUNICATION.** Stockholders can only participate in the meeting by remote communication. Stockholders as of the Record Date who intend to participate or be represented in the meeting should register for the meeting by notifying the Corporation by email at [wellexindustries.ASM@gmail.com](mailto:wellexindustries.ASM@gmail.com) not later than 9 October 2020 (at 5:00P.M.) and shall first submit a copy of proof of identity, ownership and other certification/information for validation purposes and/or duly accomplished proxy instrument for a representative to the virtual meeting, if applicable. Stockholders as of the Record Date who are interested in casting their votes on any of the matters to be presented during the 2020 ASM must cast their votes on or before 21 October 2020 (at 5:00pm).

**VOTES MAY BE CAST ONLY THROUGH ONLINE CASTING OF VOTES/PROXIES ON OR BEFORE 21 October 2020 (at 5:00P.M.).** Stockholders whose shareholdings are lodged with the Philippine Central Depository are reminded to secure a certification of your shareholdings from your respective stockbrokers.

The full details of the registration and voting procedures will be available on the Company's website, [www.wellexindustries.com/annualstockholdersmeeting.html](http://www.wellexindustries.com/annualstockholdersmeeting.html), on September 28, 2020. For more information regarding the Annual Meeting of Stockholders, please contact the Cherry Lou Alfafara, at [wellexindustries.ASM@gmail.com](mailto:wellexindustries.ASM@gmail.com).

WE ARE NOT SOLICITING YOUR PROXY.

Pasig City, Philippines, September 16, 2020.

ATTY. MARIEL LATORRE FRANCISCO  
*Corporate Secretary*

## BALLOT / PROXY FORM

Please mark as applicable:

**Vote By Ballot:** The undersigned stockholder of **WELLEX INDUSTRIES, INC.** (the "Company") casts his/her vote on the agenda items for the Annual Meeting of Stockholders on **October 27, 2020**.

**Vote By Proxy:** The undersigned stockholder of **WELLEX INDUSTRIES, INC.** (the "Company"), do hereby constitutes and appoints \_\_\_\_\_, or in his/her absence, the Chairman of the meeting, as attorney in-fact and proxy, with the power of substitution, to represent and vote upon \_\_\_\_\_ shares registered in the name of undersigned stockholder, at the Annual Meeting of Stockholders on **October 27, 2020** and any of its adjournment(s). If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 9, and a "FOR" vote for proposals 1 through 8.\*

ITEM NO.	SUBJECT MATTER	ACTION		
		Yes	No	Abstain
3	• Approval of Minutes Previous Meeting held on October 8, 2019			
4	• Approval of Annual Financial Statements as of December 31, 2019			
5	• Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.			
6	<ul style="list-style-type: none"> <li>• Election of Directors</li> </ul> <p>*All nominees listed below</p> <p>Peter S. Salud                      William T. Gatchalian                      Kenneth T. Gatchalian                      Elvira A. Ting                      Lamberto B. Mercado, Jr.                      Richard L. Ricardo                      James B. Palit-Ang                      Omar M. Guinomla                      Sergio R. Ortiz-Luis, Jr. <i>(Independent Director)</i>                      Byoung Hyun Suh <i>(Independent Director)</i>                      Ruben D. Torres <i>(Independent Director)</i></p> <p><i>Note:</i>                      To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.</p>	FOR ALL*	WITHHOLD FOR ALL*	EXCEPTION
7	• Appointment of Diaz Murillo Dalupan and Co. as external auditor for 2020			
8	• Appointment of Corporate Counsels, Phils. Law Offices as external legal counsel for 2020			
9	• At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the Meeting.			

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2020.

\_\_\_\_\_  
 PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_  
 SIGNATURE OF STOCKHOLDER/  
 NAME AND SIGNATURE OR AUTHORIZED REPRESENTATIVE

\*THIS BALLOT/PROXY FORM SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE OCTOBER 21, 2020. KINDLY EMAIL TO **WELLEXINDUSTRIES.ASM@GMAIL.COM**.

THIS BALLOT/PROXY FORM IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANYTIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
SECURITIES REGULATION CODE**

1. Check the appropriate box:  
Preliminary Information Statement  
 Definitive Information Statement
  
2. Name of Registrant as specified in its charter: **WELLEX INDUSTRIES, INC.**
  
3. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
  
4. SEC Identification Number: **11790**
  
5. BIR Tax Identification Code: **003-946-426-000**
  
6. Address of registrant's principal office: **35<sup>th</sup> Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City 1605**
  
7. Registrant's telephone number, including area code: **(632) 8706-7888**
  
8. Date, time and place of the annual stockholders' meeting:  
**Date & Time: October 27, 2019 at 2:00 P.M.**  
**Place: 35<sup>th</sup> Flr. One Corporate Center, Dona Julia Vargas, cor. Meralco Ave., Ortigas Center, Pasig City 1605 (Virtually or via Remote Communication in accordance with SEC Memorandum Circular No. 6 series of 2020)**
  
9. Approximate date on which the Information Statement is first to be sent or given to security holders:  
**October 1, 2020**
  
10. In case of proxy Solicitation : **Not applicable**

11. Securities registered pursuant to Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

<b>Title of Each Class</b>	<b>Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding</b>
Common Shares- P1.00 par value	Issued and Outstanding - 3,271,938,180

12. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

Yes  No

The common shares of the Corporation are listed on the Philippine Stock Exchange.

## **PART 1**

### **A. GENERAL INFORMATION**

#### **Item 1. Date, Time and Place of Meeting of Security Holders**

Date, Time and Place of Meeting:

**October 27, 2020**

**2:00 P.M.**

**35<sup>th</sup> Flr. One Corporate Center, Dona Julia Vargas, cor. Meralco Ave., Ortigas Center, Pasig City, 1605 (Virtually or via Remote Communication in accordance with SEC Memorandum Circular No. 6 series of 2020)**

Complete Registrant's Mailing Address (Principal Office):

**35<sup>th</sup> Flr. One Corporate Centre Doña Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City, 1605**

The approximate date on which the Information Statement

are first to be sent & given to the security holders shall be on: **October 1, 2020**

#### **Item 2. Dissenters' Right of Appraisal**

Instances of appraisal right of dissenters with respect to any matter to be acted upon provided in Section 80 of the Revised Corporation Code of the Philippines:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;
- (c) In case of merger or consolidation; and
- (d) In case of Investment of corporate funds for any purpose other than the primary purpose of the corporation.

In instances wherein the stockholder has voted against a proposed corporate action, the statutory procedures required to be followed by dissenting security holders in order to perfect such rights are, as follows:

- (a) The dissenting stockholder shall make a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken. Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the corporation shall pay the stockholder, upon surrender of the certificate or certificates of stock representing the stockholder's shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action;
- (b) If, within (60) days from the approval of the corporate action by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the (2) thus chosen. Then findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: Provided further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer the shares to the corporation;

There are no matters or proposed corporate actions to be taken up during the annual stockholders' meeting which may give rise to a possible exercise of security holders of their appraisal rights under Title X of the Corporation of the Philippines.

**THE STOCKHOLDER MUST VOTE AGAINST THE PROPOSED CORPORATE ACTION IN ORDER TO AVAIL HIMSELF OF THE APPRAISAL RIGHT**

**Item 3. Interest of Certain Persons in Matters to be acted upon**

Each of the incumbent Directors or Officers of the Corporation since the beginning of the last fiscal year or any associate of any of the foregoing persons do not have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon.

None of the incumbent Directors of the Corporation has issued any notice in writing of an intention to oppose any action to be taken by the registrant at the meeting.

**B. CONTROL AND OTHER INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

(a) Class of Voting Shares as of August 31, 2020:

Common Shares:	Shares Outstanding	No. of Vote Each Share is Entitled
<b>Filipino</b>	3,240,760,403	<b>One (1) vote per share</b>
<b>Foreigner</b>	31,177,777	<b>One (1) vote per share</b>
<b>Total</b>	3,271,938,180	

The Corporation has 3,271,938,180 outstanding common shares, the only class of shares issued by the Corporation, as of August 31, 2020. Every stockholder shall be entitled to one vote for each share of stock held as of record date September 30, 2020.

(b) Out of the total outstanding shares of 3,271,938,180 as of August 31, 2020, number of shares of Common Stock owned by foreigners was 31,177,777 or 0.95%. Each share is entitled to one vote as of the established record date.

Record Date:

(c) All stockholders of record as of **September 30, 2020** are entitled to notice and vote at the Corporation's Annual Meeting of the Stockholders.

(d) Manner of Voting:

The election of directors shall be taken up at the meeting and pursuant to Section 23 of the Revised Corporation Code of the Philippines. The holders of common stock (Class A) are entitled to one vote per share but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on the record date, multiplied by the number of directors to be elected. A stockholder may cast all such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/ cast by secret balloting and/or rising of hands. In all matters included in the agenda, except the election of directors, the counting of vote will be done through the regular method.

**The report attached to this SEC Form 20-IS is the management report to stockholders required under SRC Rule 20 to accompany the SEC Form 20-IS and is hereinafter referred to as the "Management Report".**

**Security Ownership of Certain Record and Beneficial Owners and Management:**

(1) Security Ownership of Certain Record and Beneficial Owners

As of August 31, 2020 the Corporation knows of no one who beneficially owns in excess of 5% of the Corporation's common stock except as set forth in the table below. The percentage of shares held is based on the outstanding shares of 3,271,938,180.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% to total o/s shares
Common	PCD Nominee Corporation 37F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo De Roxas, Makati City (Stockholder)	PCD Participants and their clients (see Schedule A)	Filipino	913,838,225	27.930
Common	William T. Gatchalian, 35F One Corporate Centre, Julia Vargas, Ortigas Center, Pasig City (Stockholder)	same as record owner	Filipino	835,000,100	25.520
Common	Dee Hua T. Gatchalian, 35F One Corporate Centre, Doña Julia Vargas ave., Ortigas Center, Pasig City (Stockholder)	same as record owner	Filipino	492,962,532	15.066
Common	Sherwin T. Gatchalian, 35F One Corporate Centre, Doña Julia Vargas ave., Ortigas Center, Pasig City (Stockholder)	same as record owner	Filipino	317,750,100	9.711
Common	Shinji Kobayashi, c/o TWGI, 35F One Corporate Centre, Doña Julia Vargas ave., Ortigas Center, Pasig City (Stockholder)	same as record owner	Filipino	210,650,000	6.438

Schedule A. PCD Nominee Corp. (PCNC) is a wholly owned subsidiary of Philippine Central Depository, Inc. ("PCD"), is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owner of such shares is PCD's participants who hold the shares on their behalf or in behalf of their clients. Shares lodge with PCD are voted through its appointed proxy, whom the Company can only determine on October 21, 2020, the deadline for submission of proxies. PCD is not related to Wellex Industries, Inc.

(2) Security Ownership of Management (As of August 31, 2020)

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Peter S. Salud	66,478 (direct)	Filipino	0.002
Common	Elvira A. Ting	111,850,000 (direct)	Filipino	3.418
Common	Kenneth T. Gatchalian	100,000,100 (direct)	Filipino	3.056
Common	William T. Gatchalian	835,000,100 (direct)	Filipino	25.520
Common	Lamberto B. Mercado, Jr.	200 (direct)	Filipino	0.000
Common	Byoung Hyun Suh	100 (direct)	Korean	0.000
Common	Richard L. Ricardo	460,000 (direct)	Filipino	0.014
Common	Omar M. Guinomla	100,000 (direct)	Filipino	0.003
Common	Ruben D. Torres	100 (direct)	Filipino	0.000
	Atty. Mariel Francisco	-	Filipino	0.000
<b>All directors and officers as a group</b>		<b>1,047,476,978</b>		<b>32.013</b>

(3) There is no person who holds more than 5% of a class under a voting trust holder or similar agreement.

(4) There has been no arrangement of which may result in a change in the control of the registrant.

(e) No change in control of the corporation has occurred since the beginning of its last year.

#### **Item 5. Directors and Executive Officers**

Information required hereunder is incorporated by reference to the section entitled "Directors and Executive Officers of the Registrant" on pages 55 to 59 of the Management Report. The following are the nominees for election as members of the Board of Directors of the corporation for the ensuing year:

	<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Citizenship</b>
1.	Peter S. Salud	Chairman	66	Filipino
2.	Kenneth T. Gatchalian	President/CEO	44	Filipino
3.	Elvira A. Ting	Vice President	60	Filipino
4.	Richard L. Ricardo	Treasurer	57	Filipino
5.	William T. Gatchalian	Director	71	Filipino
6.	Lamberto B. Mercado Jr.	Director	55	Filipino
7.	James B. Palit-Ang	Director	56	Filipino
8.	Omar M. Guinomla	Director	48	Filipino
9.	Ruben D. Torres	Independent Director	79	Filipino
10.	Byoung Hyun Suh	Independent Director	63	Korean
11.	Sergio R. Ortiz-Luis, Jr.	Independent Director	77	Filipino

The aforementioned nominees are all incumbent directors. All nominees in the final list were pre-screened by the Nomination Committee and their qualifications are presented on pages 55 to 59 of Management Report. The independent directors, Mr. Byoung Hyun Suh, Mr. Sergio R. Ortiz-Luis, Jr., Atty. Ruben D. Torres will be serving their 9<sup>th</sup>, 4<sup>th</sup> year and 2<sup>nd</sup> year, respectively, as independent directors when elected during the annual meeting. A company's independent director shall serve for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from re-election as such. In the instance that a company wants to retain an independent director who has served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting pursuant to SEC Memorandum Circular No. 4 Series of 2017 (Term Limit of Independent Directors).

The name of the person who recommended the nomination of the foregoing candidates for independent directors is Ms. Elvira A. Ting. She has no relationships with these nominees.

None of the candidates for independent directors of the Corporation are related to Wellex Industries, Inc.

The Members of the Nomination Committee are the following:

1. Peter S. Salud - Chairman
2. Kenneth T. Gatchalian - Member
3. Byoung Hyun Suh - Member

Information required by SEC under SRC Rule 38 on the nomination and election of Independent Directors.

#### **A. Definition**

1. An independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the corporation and includes, among others, any person who:
  - 1.1 Is not a director or officer or substantial stockholder of the corporation or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
  - 1.2 Does not own more than two percent (2%) of the shares of the corporation and/or its related companies or any of its substantial shareholders;
  - 1.3 Is not a relative of any director, officer or substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders. For this purpose,

relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;

- 1.4 Is not acting as a nominee or representative of any director or substantial shareholder of the corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
  - 1.5 Has not been employed in any executive capacity by the corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
  - 1.6 Is not retained, either personally or through his firm or any similar entity, as professional adviser, by the corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or
  - 1.7 Has not engaged and does not engage in any transaction with the corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.
2. No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the corporation's Manual on Corporate Governance provides.
  3. Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.
  4. When used in relation to a company subject to the requirements above:
    - 4.1 Related company means another company which is: (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company; and
    - 4.2 Substantial shareholder means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

## **B. Qualifications and Disqualifications of Independent Directors**

1. An independent director shall have the following qualifications:
  - 1.1 He shall have at least one (1) share of stock of the corporation;
  - 1.2 He shall be at least a college graduate or he has sufficient management experience to substitute for such formal education or he shall have been engaged or exposed to the business of the corporation for at least five (5) years;
  - 1.3 He shall be twenty-one (21) years old up to seventy (70) years old, however, due consideration shall be given to qualified independent directors up to the age of eighty (80);
  - 1.4 He shall have been proven to possess integrity and probity; and
  - 1.5 He shall be assiduous.
2. No person enumerated under Section II (5) of the Code of Corporate Governance shall qualify as an independent director. He shall likewise be disqualified during his tenure under the following instances or causes:
  - 2.1 He becomes an officer or employee of the corporation where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under letter (A) hereof;
  - 2.2 His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the corporation where he is such director;
  - 2.3 Fails, without any justifiable cause, to attend at least 50% of the total number of Board meetings during his incumbency unless such absences are due to grave illness or death of an immediate family;
  - 2.4 Such other disqualifications that the Corporate Governance Manual provides.

## **C. Number of Independent Directors**

All companies are encouraged to have independent directors. However, issuers of registered securities and public companies are required to have at least two (2) independent directors or at least twenty percent (20%) of its board size, whichever is the lesser.

#### **D. Nomination and Election of Independent Directors**

1. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the corporation's information or proxy statement or such other reports required to be submitted to the Commission.
2. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
3. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
4. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Corporation is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
5. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained nor allowed on the floor during the actual annual stockholders' meeting.
6. Election of Independent Director/s
  - 6.1 Except as those required under this Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of the company or its by-laws.
  - 6.2 It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that independent director/s is elected during the stockholders' meeting.
  - 6.3 Specific slot/s for independent directors shall not be filled-up by unqualified nominees.
  - 6.4 In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

#### **E. Termination/Cessation of Independent Directorship**

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

The procedures for the "Nomination and Election of Independent Directors pursuant to SRC Rule 38" are to be incorporated in the By-Laws of the Corporation. The Board of Directors approved the amendments to the Corporation's By-Laws to adopt SRC Rule 38 on December 14, 2004.

The By-Laws of the corporation were amended after the Stockholders' meeting on July 1, 2011 which includes the provisions of SRC Rule 38, as approved by the Board of Directors and Stockholders during the last Stockholders' meeting dated December 14, 2004.

#### F. Term Limits for Independent Directors

Pursuant to SEC Memorandum Circular No. 4 Series of 2017, the Commission in its en banc meeting on March 9, 2017 resolved to amend its rules on the term limit of independent directors as follows:

1. A company's independent director shall serve for a maximum cumulative term of nine (9) years;
2. After which, the independent director shall be perpetually barred from re-election as such in the same company, but may continue to qualify as a non-independent director;
3. In the instance that a company wants to retain an independent director who has served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting; and
4. Reckoning of the cumulative nine-year term is from 2012.

#### Significant Employees

There are no other employees other than the officers mentioned in the preceding subsection who are expected to make significant contribution to the business.

#### Family Relationships

Except for the father and son relationship between Mr. William T. Gatchalian and Mr. Kenneth T. Gatchalian and Ms. Elvira A. Ting who is the sister-in-law of Mr. William T. Gatchalian, there are no family relationships among the officers listed.

#### Involvement in Certain Legal Proceedings

None of the directors and executive officers was involved in certain legal proceedings during the past five (5) years up to the latest date. Neither have they been convicted by final judgment in any criminal proceedings, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a securities and commodities law.

#### Certain Relationships and Related Transactions

The Group, in the normal course of business, has transactions with related parties. The following table summarizes the transactions with related parties for the year ended December 31, 2019 and 2018. Please refer to Note 18 of the Audited Consolidated Financial Statements attached to this report for the broad discussions.

	Increase/ (Decrease) (%)	2019		2018	
		Receivables	Payables	Receivables	Payables
The Wellex Group, Inc.	(6.08%)	₱57,170,105	₱13,722,810	₱60,868,866	₱ –
Metro Alliance Holdings & Equities Corp.	–	105,060,000	–	105,060,000	–
Diamond Stainless Corporation	19.61%	–	142,107,880	–	118,858,010
Kenstar Industrial Corporation	–	–	23,539,858	–	23,539,858
Rexlon Realty Corporation	(100%)	–	–	–	23,187,370
Philippine Estates Corporation	1.81%	–	31,019,308	–	30,465,391
Plastic City Corporation	3.92%	–	82,000,134	–	85,347,586
Pacific Rehouse Corporation	–	–	15,540,753	–	15,540,753
International Polymer Corporation	0.00%	–	24,161,573	–	24,156,913
Ropeman International Corp.	–	–	3,202,528	–	3,202,528
Concept Moulding Corp.	0.00%	3,632,463	–	3,632,964	–
Key management and officers	–	–	158,118,794	–	158,118,794
		165,863,568	493,413,638	169,561,830	482,417,203
Allowance for doubtful accounts		(135,461,783)		(121,182,068)	
		₱30,401,785	₱493,413,638	₱48,379,762	₱482,417,203

Advances to Metro Alliance Holdings and Equities Corp (MAHEC) represent receivable for the value of the land foreclosed to settle the affiliate's loan with Philippine Veterans Bank.

The assignment of intercompany receivables/payables and advances to/from affiliates was in line with the plan of integrating the Group intercompany account balances to facilitate the preparation of intercompany reconciliation, billing and collection and payment processes among the Group.

Ownership Structure and Parent Company

Wellex Industries, Inc. (Parent Company) wholly owns Plastic City Industrial Corporation (PCIC) and subsidiaries. PCIC and subsidiaries have ceased operations but have leased out its warehouse/building facilities.

Resignation of Directors Due to Disagreement

There is no director who resigned or decline to stand for re-election because of disagreement.

Terms of Office

The Directors of Wellex Industries, Inc. are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

All officers, except executive officers, shall be elected by the Board of Directors at its first meeting following their election. Every officer so elected shall be subject to removal at any time by the Board of Directors but all officers, unless removed, shall hold office until their successors are duly elected and qualified.

The executive officers shall hold office either by appointment of the Board of Directors or upon contract of employment with the Corporation approved by the board of Directors.

**Item 6. Compensation of Directors & Executive Officers**

The following table lists the names of the Corporation's Directors and Executive Officers Annual Compensation for the two most recent years including the estimated compensation for year 2020. As observed, there was no compensation, in any form, to all Directors and key officers for the previous years due to the Company's tight cash position. Variable pay given to directors pertains to per diem paid for every regular and special meeting attended within the year including, but not limited to, regular and special meetings of the Board of Directors, committee meetings and attendance to trainings and seminars.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Peter S. Salud Chairman/Director	2020	-	-	-
	2019	-	-	-
	2018	-	-	50,000
Kenneth T. Gatchalian President/CEO/Director	2020	-	-	-
	2019	-	-	-
	2018	-	-	50,000
Elvira A. Ting Vice President/Director	2020	-	-	-
	2019	-	-	-
	2018	-	-	50,000
Richard L. Ricardo Treasurer/Director	2020	-	-	-
	2019	-	-	-
	2018	-	-	50,000
William T. Gatchalian, Lamberto Mercado, Jr., James B. Palit-Ang, Omar M. Guinomla Directors	2020	-	-	-
	2019	-	-	-
	2018	-	-	-
Byoung Hyun Suh, Sergio Ortiz-Luis, Jr, Ruben D. Torres Independent Directors	2020	-	-	20,000
	2019	-	-	20,000
	2018	-	-	50,000

The members of the Compensation Committee are the following:

1. Elvira A. Ting - Chairman
2. Lamberto B. Mercado, Jr. - Member
3. Byoung Hyun Suh - Member

#### Standard Arrangement

Except for a nominal amount of per diem amounting to ₱10,000 during attendance in special meetings, there are no standard arrangements to which directors of the Corporation are compensated, or are to be compensated, directly or indirectly for any services provided as a director for the last completed calendar year and ensuing year.

There was no compensation, in any form, to all directors and key officers, except for Independent Directors, due to the company's tight cash position. In year 2019, only Mr. Byoung Hyun Suh and Mr. Sergio Ortiz-Luis, Jr, who were present in the 2019 Annual Stockholders' Meeting, received a per diem of ₱10,000 each. None to report as of the moment for year 2020.

#### Other Arrangements

There are no other arrangements pursuant to which any director of the Corporation was compensated, or is to be compensated directly or indirectly for any services provided as a director for the last completed calendar year and ensuing year, for any service provided as a director.

#### Employment Contracts and Termination of Employment and Change—in-Control Arrangements

There is no employment contract and termination of employees and change-in-control arrangement with directors and executive officers.

#### Warrants and Options Outstanding

There are no warrants and options outstanding held by Wellex Industries, Inc.'s CEO, executive officers and all officers and directors as a group.

#### **Item 7. Appointment of Independent Public Accountants**

- a. Diaz Murillo Dalupan and Company (DMDC), upon recommendation by the Audit Committee of the Board of Directors composed of Mr. Byoung Hyun Suh as Chairman, Sergio Ortiz-Luis, Jr and Peter S. Salud as members, was re-appointed by the stockholders as the principal external auditors for the years 2019 and 2018, and is again being recommended to the stockholders for re-election as the Company's principal external auditors for the year 2020. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors are approved by the Company after approval by the stockholders of the engagement and prior to the commencement of each audit season.
- b. In compliance with SEC Rule 68 paragraph 3(b)(iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years or earlier. Mr. Jozel Francisco C. Santos was the lead engagement partner in 2014 to 2015, Ms. Rosemary D. De Mesa in 2016 to 2018 and Mr. Richard Noel M. Ponce in 2019.
- c. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make statement if they desire to do so and are expected to be available to respond to appropriate questions.
- d. The members of the Audit Committee of the Corporation are the following:
  1. Byoung Hyun Suh - Chairman
  2. Sergio Ortiz-Luis, Jr. - Member
  3. Peter S. Salud – Member

#### External Audit Fees and Services

Fees approved in connection with the audit and audit-related services rendered by Diaz Murillo and Company pursuant to the regulatory and statutory requirements for the years ended December 31, 2019 and 2018 is shown below, for expressing an opinion on the financial statements and assistance in preparing the annual income tax return

	2019	2018
Audit Fees	₱1,260,000	₱1,260,000
Out of Pocket Expenses	151,200	151,200
VAT	169,344	169,344
Others	-	-
<b>TOTAL</b>	<b>₱1,580,544</b>	<b>₱1,580,544</b>

No other service such as tax and assurance audit was provided by external auditors to the Company for the calendar year 2019 and 2018.

*The Audit Committee Approval Policies and Procedures for the services rendered by the External Auditors*

The Corporate Governance Manual of the company provides that the audit committee shall, among others:

- 1.) Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.
- 2.) Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.
- 3.) Ensure the compliance of the Company with acceptable audit and accounting standards and regulations.

*Changes in and Disagreement with Accountants on Accounting and Financial Disclosure*

There are no changes in and disagreements with accountants on accounting and financial disclosure and no change in the Company's independent accountants during the two most recent fiscal years or any subsequent interim period.

**Item 8. Compensation Plans**

Not applicable.

**C. ISSUANCE AND EXCHANGE OF SECURITIES**

**Item 9. Authorization or Issuance of Securities Other than for Exchange**

Wellex Industries, Inc. has no plans yet to increase its authorized capital stock.

**Item 10. Modification or Exchange of Securities**

Wellex Industries, Inc. has no plans yet to modify any of each authorized and issued securities or to exchange them to another class

**Item 11. Financial and Other Information**

Audited Financial Statements as of 31 December 2019, Management's Discussion and Analysis and Market Price of Shares and other data related to the Corporation's financial information are attached hereto. The schedules required under Part IV(c) of Rule 68 are included in the Annual Report.

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There is no action intended to be taken with respect to any transaction involving the following: (1) the merger or consolidation of the Corporation into or with any other entity; (2) the acquisition by the Corporation or any of its stockholders of securities of another person or entity; (3) the acquisition by the Corporation of any other going business or of the assets thereof; (4) the sale or other transfer of all or any substantial part of the assets of the Corporation; and (5) the liquidation or dissolution of the Corporation.

**Item 13. Acquisition or Disposition of Property**

There is no action to be taken with respect to any material acquisition or disposition of any property of the Corporation.

**Item 14. Restatement of Accounts**

There is no action to be taken with respect to the restatement of any asset, capital, or surplus account of the Corporation.

**C. OTHER MATTERS**

**Item 15. Action with Respect to Reports**

There is no action to be taken with respect to any report of the Company or its directors, officers or committees, except for the approval of the minutes of the previous annual stockholders meeting of the company which was held last October 8, 2019 and for the ratification of all acts of the Board of Directors during their term of office.

#### *Acts of the Board of Directors*

At the Annual Stockholders Meeting, stockholders will be asked to approve and ratify the acts of the Board of Directors during their term of office duly disclosed to the SEC and PSE. Since the last Stockholders' Meeting on October 8, 2019, the Board of Directors has authorized several transactions which are pursuant to the Company's ordinary course of business.

For the upcoming Annual Stockholders Meeting on October 27, 2020, below are the agenda, subject for approval of the stockholders:

- a. The Annual Report and Audited Financial Statements for the year ended December 31, 2019 will be presented to the stockholders for approval by a majority vote of the stockholders. Approval of the Annual Report and Audited Financial Statements constitutes a ratification of the Corporation's performance during the previous fiscal year as contained therein.
- b. Minutes of the Annual Stockholders' Meeting held last October 8, 2019 will also be presented to the stockholders for approval by a majority vote of the stockholders
- c. Ratification of the Corporate Acts of the Board of Directors and Executive Officers since October 8, 2019 by a majority vote of the stockholders.
- d. Election of the members of the Board of Directors for the ensuing year
- e. Appointment of External Auditors by a majority vote of the stockholders
- f. Appointment of External Legal Counsels by a majority vote of the stockholders
- g. Other Matters

Below is a summary of the Corporate Acts of the Board of Directors and Executive Officers subject to ratification of the stockholders on the annual stockholders' meeting:

#### **August 27, 2019**

Setting the date of the annual stockholders' meeting on October 8, 2019 at 2:30 in the afternoon at One Café and Events Place, 6<sup>th</sup> Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City. The Board also set September 28 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during the said meeting.

#### **October 8, 2019**

Annual stockholders' meeting for 2019 agenda of which includes:

- a) Approval of minutes of 2018 stockholders' meeting
- b) Election of members of the board of directors for the year 2018-2019
- c) Approval of 2018 Audited Financial Statements
- d) Appointment of External Auditors
- e) Appointment of External Counsels

#### **June 11, 2020**

Approval and authorize to issue the audited financial statements and independent auditor's report for the year ended December 31, 2019 on which Diaz Murillo Dalupan and Company, the external auditors of the Corporation, rendered an unqualified audit opinion.

#### **September 15, 2020**

Setting the date of the annual stockholders' meeting on October 27, 2020 at 2:00 in the afternoon, virtually or via remote communication. The Board also set September 30, 2020 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during the said meeting.

The previous Annual Stockholders' Meeting held on October 8, 2019 was attended, in person or by proxy, by the stockholders representing 2,100,785,300 common shares, constituting 64.21% of the total outstanding capital stock of the Company as of record date September 16, 2019. The attendance constituted a quorum for the approval of all matters in the agenda. The Board of Directors, Officers, external legal counsels and external auditors were also present in the said meeting.

#### **The method by which votes counted from previous meeting:**

The holders of the majority interest of all outstanding stocks of the Corporation entitled to vote at the meeting present in present or by proxy, shall constitute a quorum for the transaction of business.

The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholders were entitled to as many votes as shall equal the number of shares held by such person at the close of business on record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or raising of hands. In all matters included in the agenda, the stockholders are entitled to one vote per share. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditor Diaz Murillo Dalupan and Company and Stock Transfer Agent, Banco De Oro Stock Transfer Agency. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be casted in accordance with the instructions given or authority granted under proxies.

The Corporate Secretary shall record all the votes and proceedings of the stockholders and of the Directors in a book kept for that purpose.

An affirmative vote by the stockholders owning at least a majority of the outstanding capital stock was sufficient for the approval of below agenda last October 8, 2019, as recorded in the minutes thereof:

- 1) Minutes of Stockholders meeting held on October 26, 2018;
- 2) Audited Financial Statements for the year ended December 31, 2018;
- 3) Ratification of Corporate Acts of the Board of Directors and Officers of the corporation;
- 4) Appointment of External Counsels;
- 5) Appointment of External Auditors;
- 6) Any other proposed action.

All the items of the agenda from previous year's meeting were approved by the stockholders and the voting results as follows:

Agenda	Voting Results		
	For	Against	Abstain
Call to Order	100%	0.00%	0.00%
Certification of Notice and determining of Quorum	100%	0.00%	0.00%
Approval of Minutes of Previous Meeting	100%	0.00%	0.00%
Approval of Annual Report for the year ended December 31, 2018	100%	0.00%	0.00%
Ratification of acts of the Board and Management	100%	0.00%	0.00%
Election of Board of Directors			
Peter S. Salud	100%	0.00%	0.00%
Kenneth T. Gatchalian	100%	0.00%	0.00%
Elvira A. Ting	100%	0.00%	0.00%
Richard L. Ricardo	100%	0.00%	0.00%
William T. Gatchalian	100%	0.00%	0.00%
Lamberto B. Mercado Jr.	100%	0.00%	0.00%
James B. Palit-Ang	100%	0.00%	0.00%
Omar M. Guinomla	100%	0.00%	0.00%
Ruben D. Torres	100%	0.00%	0.00%
Byoung Hyun Suh	100%	0.00%	0.00%
Sergio R. Ortiz-Luis Jr	100%	0.00%	0.00%
Election of External Auditor	100%	0.00%	0.00%
Election of External Counsel	100%	0.00%	0.00%
Other Matters	100%	0.00%	0.00%
Adjournment	100%	0.00%	0.00%

The following directors and officers were present during the 2019 annual stockholders' meeting:

	Name	Position
1.	Peter S. Salud	Chairman
2.	Kenneth T. Gatchalian	President/CEO
3.	Elvira A. Ting	Vice President
4.	Richard L. Ricardo	Treasurer
5.	William T. Gatchalian	Director
6.	Lamberto B. Mercado Jr.	Director

7.	James B. Palit-Ang	Director
8.	Omar M. Guinomla	Director
9.	Byoung Hyun Suh	Independent Director
10.	Sergio R. Ortiz-Luis, Jr.	Independent Director

The stockholders were given a chance to ask questions after each discussion of the agenda of the meeting. Minutes of the Annual Stockholders Meeting and Organizational Meeting last 2019 are available in the company website.

In year 2019, no material information on the current stockholders, and their voting rights as well as in directors' disclosures on self-dealing and related party transactions. For appraisal and performance report for the board and the criteria and procedure for assessment, please refer to the corporate governance report 2019, which stated that the principle is indicated in the Company's Revised Manual on Corporate Governance. But due to minimal operations of the Company, there was no written self-assessment of each individual or committee's performance.

#### **Item 16. Matters Not Required to be Submitted**

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of the stockholders.

#### **Item 17. Amendment of Charters, By-Laws & Other Documents**

Except for the following, no other amendment was made by the Corporation:

1. Articles of Incorporation, Article 1V and to its By-Laws, Board of Directors Section 1, 8-13, as per Board Meeting held on December 17, 2004 and Stockholder's Meeting held thereafter, the same was approved by SEC on July 23, 2007 and October 11, 2007 respectively.
2. The Board of Directors in its special meetings held last January 07 and 28, 2008 decided to amend the Primary and Secondary Purposes of the Articles of Incorporation of the Company and the same was approved by the stockholders during the annual stockholders' meeting held on November 20, 2008.

The Board amended the Primary Purpose of the Corporation, from a holding company to a company engaged in the business of mining and oil exploration considering that the government is currently enticing the business sector to develop the country's natural resources on gas and oil. In doing so, the Secondary Purpose of the Company stipulated in Paragraph 2 under the heading "Mining" shall be taken out and inserted as its Primary Purpose instead. Then, the numbering of the Secondary Purpose shall be adjusted accordingly. This was approved by SEC on April 3, 2009.

3. Amendment of Articles of Incorporation due to change of principal office address from 22nd Floor Citibank Tower, 8741 Paseo de Roxas St., Makati City to 35th Floor, One Corporate Centre, Doña Julia Vargas Ave., cor. Meralco Ave., Ortigas Center, Pasig City was approved by SEC on June 26, 2013.

#### **Item 18. Other Proposed Action**

As of this report, there are no other matters which the Board of Directors intends to present or has reason to believe others will present at the meeting.

#### **Item 19. Voting Procedures**

An affirmative vote by the stockholders owning at least a majority of the outstanding capital stock shall be sufficient for the approval of:

- 1) Minutes of Stockholders meeting held on October 8, 2019;
- 2) Audited Financial Statements for the year ended December 31, 2019;
- 3) Ratification of Corporate Acts of the Board of Directors and Officers of the corporation;
- 4) Appointment of External Counsels;
- 5) Appointment of External Auditors;
- 6) Any other proposed action.

#### **The method by which votes will be counted:**

The holders of the majority interest of all outstanding stocks of the Corporation entitled to vote at the meeting present in present or by proxy, shall constitute a quorum for the transaction of business.

The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditor Diaz Murillo Dalupan and Company and Stock Transfer Agent, Banco De Oro Stock Transfer Agency. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be casted in accordance with the instructions given or authority granted under proxies.

The Corporate Secretary shall record all the votes and proceedings of the stockholders and of the Directors in a book kept for that purpose.

Due to COVID-19 Global Pandemic, the Board of Directors of Forum Pacific, Inc. has decided to conduct the annual stockholders' meeting via remote communication like Zoom or its equivalent.

A stockholder who has the intention to participate in the Annual Stockholders' Meeting via remote communication or to exercise their vote in absentia or through proxy, should notify the Company by sending the required documents, such as proof of identity, ownership and other certification/information at [wellexindustries.asm@gmail.com](mailto:wellexindustries.asm@gmail.com) from October 1 to October 9, 2020 (5:00pm).

A Stockholder may opt to cast his/her vote/proxy during the registration or until October 21, 2020. Note that only the ballot/proxy form of a successful registrant will be counted as a valid vote. Stockholders whose shareholdings are lodged with the Philippine Central Depository are reminded to secure a certification of your shareholdings from your respective stockbrokers.

Once the stockholder submitted the requested documents through email, the Company will forward it to the Company's stock transfer agent, BDO Stock Transfer, for validation.

If confirmed, that all are true and correct, ballot/proxy form submitted will be counted as a valid vote and a successful registrant will receive the instructions on how to access the livestream and its invitation link to the Annual Stockholders Meeting. For unsuccessful registrant, he/she will receive, either an email or a call from the Company for any deficient/pending documents that needs to be submitted.

Only stockholders who notified the Company of their intention to participate in the virtual meeting and have registered themselves or their proxies will be included in the determination of quorum. The full details of the registration and voting procedures will be available on the Company's website, [www.wellexindustries.com/annualstockholdersmeeting.html](http://www.wellexindustries.com/annualstockholdersmeeting.html), on September 28, 2020.

We are not soliciting proxies.

### Undertaking

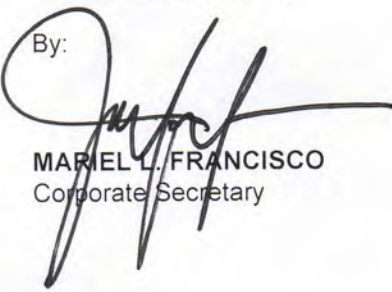
Wellex Industries, Inc., as registrant, will provide the stockholders a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the Office of the Corporate Secretary c/o WELLEX INDUSTRIES, INC., 35<sup>th</sup> Flr, One Corporate Center, Doña Julia Vargas Ave., cor. Meralco Ave, Ortigas Center, Pasig City, Philippines.

### SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on September 16, 2020

Wellex Industries, Inc.

By:



MARIEL L. FRANCISCO  
Corporate Secretary

**CERTIFICATION OF INDEPENDENT DIRECTOR**


I, **Sergio R. Ortiz-Luis, Jr.**, Filipino, of legal age and a resident of 151 cor. 3rd St. & 10th Ave., Riverside Village, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:


- I am an independent director of **Wellex Industries, Inc.** and have been its independent director since 2016.
- I am affiliated with the following companies or organizations:

COMPANY	POSITION	PERIOD OF SERVICE
Alliance Global, Inc.	Vice Chairman	2007 – present
Phil Chamber of Commerce & Industry	Chairman/Treasurer	2007 – present
Waterfront Phils., Inc.	Independent Director	2005 – present
Philippine Exporters Confederation Inc.	President/CEO	2008 – present
Philippine Estate Corp	Independent Director	2011 – present
B.A. Securities	Independent Director	2012 – present
Acesite (Phils) Hotel Corp	Independent Director	2013 – present
Consulate Romanian in the Philippines	Honorary Consul General	2015 – present
Forum Pacific, Inc.	Independent Director	2016 – present
Waterfront Manila Premier Development, Inc.	Chairman/Director	2017-present
Int'l Chamber of Commerce of the Phils	Founding Director	Present
Employers' Confederation of the Phils.	President	Present
Manila Exposition Complex Inc	Director	Present
VC Securities Corp	Vice-Chairman/Independent Director	Present
Country Garden Agri-Tourism Dev't. Inc	Chairman/Director	Present
Philippine International Airways	Chairman/Director	Present
National Center for Mediation	Chairman	Present
Integrated Concept & Solutions, Inc	Chairman	Present
Export Development Council	Vice-Chairman	Present
Philippine Foundation, Inc. (Team Phils.)	Director/Past President	Present
Asia Pacific Chinese Media, Inc.	President	Present
GS1 & Int'l Chamber of Commerce Phils	Founding Director	Present
Alliance Energy Power and Dev't Inc.	Director	Present
La Salle Tech Academy	Director	Present
H2O (formerly Calapan Ventures, Inc.)	Director	Present
Rotary Club of Greenmeadows Foundation	Chairman	Present
Jardeli Club foundation	Vice-Chairman	Present
Rural Bank of Baguio	Director	Present
LikeCash Asia & Pacific Corp	Director	Present
SPC Power Corporation	Director	Present
Drug Abuse Resistance Education Phils.	Director	Present
Human Resource Dev't Foundation	Trustee/Treasurer	Present
Int'l Association of Educators for World Peace	Honorary Adviser	Present
The Philippine Bamboo Council	Private Sector Representative	Present
Patrol 117 - Foundation for Crime Prevention	Commissioner	Present
Industry Development Council	Member	Present
National Competitiveness Council	BPLS Champion	Member
Philippine Jaycee Senate	Senate	Member
Philippine Coastguard Auxilliary	Captain	Member

- I possess all the qualification and none of the disqualifications to serve as an Independent Director of **Wellex Industries, Inc.**, as provided for in Section 38 of the Securities Regulation Code, its Implement Rules and Regulations and other SEC issuances.
- I am not related to any director/officer/substantial shareholder of **Wellex Industries, Inc.** and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
- To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
- I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- I shall inform the Corporate Secretary of **Wellex Industries, Inc.** of any changes in the abovementioned information within five days from its occurrence.

Done, this SEP 16 2020 at QUEZON CITY

  
**ATTY. CONCEPCION P. VILLAREJO**  
 Notary Public for Quezon City

  
**SERGIO R. ORTIZ-LUIS, JR.**  
 Affiant

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 107-846-762 issued at Bureau of Internal Revenue.

PTR No. 090001-15-20/OC  
**IBP No. 093586 – 10-22-2019/ GC**  
**Roll No. 30457 – 05-09-60**  
**MCLE VI – 0030379**  
**Adm. Matter No. NP-001(2020-2021)**  
**TIN No. 131-942-754**

Doc. No. 251  
 Page No. 51  
 Book No. 43  
 Series of 2020

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **Ruben D. Torres**, Filipino, of legal age and a resident of No. 22 Kalaw Ledesma Circle, Tierra Verde Homes, Tandang Sora, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

- I am an independent director of **Wellex Industries, Inc.** and have been its independent director since July 2018.
- I am affiliated with the following companies or organizations:

COMPANY	POSITION	PERIOD OF SERVICE
BPO Workers Association of the Phils (BWAP)	President	Present
Services Exporters Risk Management & Consultancy Co. (SERMC)	Chairman/CEO	Present
Trade Union Congress of the Philippines	VP-International Affairs	Present
Forum Pacific, Inc.	Independent Director	July 2018 - Present
Torres Caparas Torres Law Officers	Senior Partner	1998 – present
Waterfront Philippines Inc.	Independent Director	Present
Acesite Philippines Hotel Corporation	Independent Director	Present
Pacific Concorde Corporation	President	Present
Wellex Mining Corporation	Corporate Treasurer	Present
Waterfront Manila Premier Development, Inc.	Director	Present
Taguig Lake City Development Corporation	Chairman	Present
Alliance Energy Power and Development Inc.	Chairman	Present
Triton Construction and Development Corporation	Chairman	Present


- I possess all the qualification and none of the disqualifications to serve as an Independent Director of **Wellex Industries, Inc.**, as provided for in Section 38 of the Securities Regulation Code, its Implement Rules and Regulations and other SEC issuances.
- I am not related to any director/officer/substantial shareholder of **Wellex Industries, Inc.** and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
- To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
- I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- I shall inform the Corporate Secretary of **Wellex Industries, Inc.** of any changes in the abovementioned information within five days from its occurrence.

Done, this SEP 16 2020 day of QUEZON CITY.

  
**RUBEN D. TORRES**  
 Affiant

SUBSCRIBED AND SWORN to before me this SEP 16 2020 day of QUEZON CITY affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 135-071-068 issued at Bureau of Internal Revenue.

Doc. No. 20  
 Page No. 1  
 Book No. 93  
 Series of 2020

  
**ATTY. CONCEPCION P. VILLAREÑA**  
 Notary Public for Quezon City  
 Until December 31, 2021  
 PTR No. 9296041 – 1-2-2020/ QC  
 IBP No. 093586 – 10-22-2019/ QC  
 Roll No. 30457 – 05-09-80  
 MCLE VI – 0030379  
 Adm. Matter No NP-001(2020-2021)  
 TIN No. 131-942-754

**CERTIFICATION OF INDEPENDENT DIRECTOR**

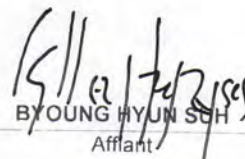
I, **Byoung Hyun Suh**, Korean, of legal age and a resident of Unit 2006B The Salcedo Place, Tordesillas St., Salcedo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **Wellex Industries, Inc.** and have been its independent director since June 2011.
2. I am affiliated with the following companies or organizations:

COMPANY	POSITION	PERIOD OF SERVICE
Pan Islands, Inc	President	February 1995 - present
World OKTA (Overseas Korean Traders Association) Federation	Director	November 2004 - present
Forum Pacific, Inc.	Independent Director	June 2011 - present
Bonamis Pharmacy Phil's. Corp	President	October 2011 to Present
Metro Alliance Holdings & Equities Corp	Independent Director	2016 - present
Philippines Estates Corporation	Independent Director	2016 - present

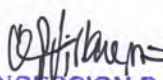
3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of **Wellex Industries, Inc.**, as provided for in Section 38 of the Securities Regulation Code, its Implement Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of **Wellex Industries, Inc.** and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of **Wellex Industries, Inc.** of any changes in the abovementioned information within five days from its occurrence.

Done, this AUG 18 2020 day of QUEZON CITY.

  
**BYOUNG HYUN SUH**  
 Affiant

SUBSCRIBED AND SWORN to before me this AUG 18 2020 day of QUEZON CITY, affiant personally appeared before me and exhibited to me his TIN No. 122-963-522 issued at Bureau of Internal Revenue

Doc. No. 301  
 Page No. 12  
 Book No. 17  
 Series of 2020:

  
**ATTY. CONCEPCION P. VILLAREÑA**  
 Notary Public for Quezon City  
 Until December 31, 2021  
 PTR No. 9296041 – 1-2-2020/ QC  
 IBP No. 093586 – 10-22-2019/ QC  
 Roll No. 30457 – 05-09-80  
 MCLE VI – 0030379  
 Adm. Matter No. NP-001(2020-2021)  
 TIN No. 131-942-754

**CERTIFICATION**

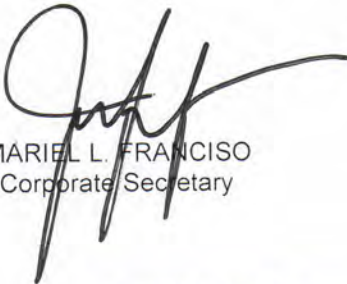
I, MARIEL L. FRANCISO, of legal age and with office address at Unit 3104 Antel Global Corporate Center, #3 Doña Julia Vargas Avenue, Ortigas Center, Pasig City, after being duly sworn to in accordance with law, do hereby certify:

I am the duly elected Corporate Secretary of WELLEX INDUSTRIES, INC., a corporation duly organized and existing under Philippine laws with principal office at 35<sup>th</sup> Flr, One Corporate Center, Doña Julia Vargas Ave., cor. Meralco Ave., Ortigas Center, Pasig City (the "Corporation").

All incumbent directors and officers of the Corporation are not connected with any government agency or instrumentality, except for Lamberto B. Mercado, Jr. Attached herewith is a copy of his consent letter for your reference.

I execute this Certification to comply with the requirements of the Securities and Exchange Commission.

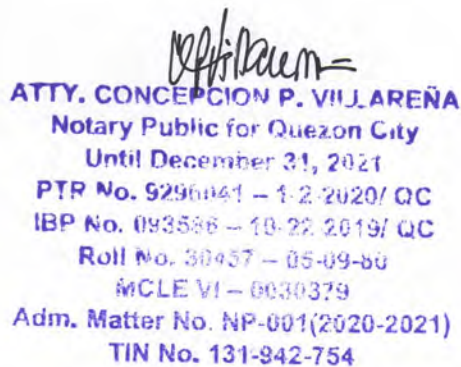
IN WITNESS WHEREOF, I have hereunto set my hand this SEP 16 2020 in the City of Pasig.



MARIEL L. FRANCISO  
Corporate Secretary

Subscribed and sworn to before me this SEP 16 2020 at QUEZON CITY, Affiant exhibiting to me his TIN with No. 224-150-060.

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Page No. 57  
Book No. 93  
Series of 2020



*Concepcion P. Viljarena*  
**ATTY. CONCEPCION P. VIJAREÑA**  
Notary Public for Quezon City  
Until December 31, 2021  
PTR No. 9296041 – 1-2-2020/ QC  
IBP No. 093586 – 10-22-2019/ QC  
Roll No. 30457 – 05-09-80  
MCLE VI – 0030379  
Adm. Matter No. NP-001(2020-2021)  
TIN No. 131-942-754




PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION

## CERTIFICATION

This is to certify that **ATTY. LAMBERTO B. MERCADO JR.** is hereby allowed/authorized to occupy membership in the Board of Directors of other corporations provided such memberships do not conflict with his official function as member of the PNCC Board of Directors.

Done this 2nd day of September 2020 in Bicutan, Paranaque City.

  
**ATTY. MIGUEL E. UMALI**  
*President and CEO*

**MANAGEMENT REPORT  
AS REQUIRED BY SRC RULE 20  
INCLUDING FINANCIAL INFORMATION FOR SECOND QUARTER OF 2020**

**BUSINESS AND GENERAL INFORMATION**

**1.) Brief Description of the General Nature and Scope of the Registrants Business and its Subsidiaries**

Wellex Industries, Incorporated (the 'Parent Company) was incorporated in the Philippines on October 19, 1956. The parent company engaged primarily in the business of mining and oil exploration and was known as Republic Resources and Development Corporation (REDECO). The Parent Company extended its corporate life for another 50 years up to October 19, 2056 which was approved by the Securities and Exchange Commission (SEC) on July 20, 2007.

The Parent Company's shares are listed and traded in the Philippines Stock Exchange (PSE). It wholly owned Plastic City Industrial Corporation (PCIC). PCIC has ceased its manufacturing operations but PCIC subsidiaries have leased out their warehouse and building facilities.

The registered office address of the Parent Company is located at 35<sup>th</sup> Flr., One Corporate Center, Dona Julia Vargas, cor Meralco Ave., Ortigas Center, Pasig City, Philippines.

**Plastic City Industrial Corporation**

In November 1999, the Company formalized the entry of Plastic City Industrial Corporation (PCIC) into the Wellex Industries, Inc. family. PCIC was the Philippines' first fully-integrated manufacturer of plastic products used in a number of industries. From its humble beginnings as a plastic scrap palletizing operation in 1969, PCIC became the forefront of the plastics industry until year 2002, a year when the company was greatly affected by economic crisis. It was then the Company was forced to stop its operation.

PCIC's plants are located on a 21-hectare property north of Metro Manila. Plastic City is an industrial metropolis in itself. It used to serve the demands of different sectors such as plastic packaging, invaluable house ware products, appliance and telecommunications accessories, industrial parts and pipes for waterworks, sewerage and telecommunications, and electrical conduit systems.

**2.) Properties and Other Assets**

**Investment Properties**

These are properties held primarily to earn rentals and for capital appreciation. The carrying amounts of these properties (net of accumulated depreciation and impairment loss) are shown below:

	Land	Land improvements	Building and improvements	Total
Net carrying amounts, 01/01/2019	₱919,365,980	₱-	₱57,593,002	₱976,958,982
Additions	64,216,267	-	-	64,216,267
Disposals	-	-	-	-
Other Movements	-	-	-	-
Depreciation	-	-	(2,571,563)	(2,571,563)
<b>Net carrying amounts, 12/31/2019</b>	<b>₱983,582,247</b>	<b>₱-</b>	<b>₱55,021,439</b>	<b>₱1,038,603,686</b>

In 2018, the group sold parcels of land with total carrying amount of ₱42,209,421 for a total consideration of ₱46,800,000 which resulted to a total gain of ₱4,590,579.

Rental income earned on the above investment properties amounted to ₱29.53 million, ₱22.86 million and ₱17.49 million for the years ended December 31, 2019, 2018 and 2017, respectively. While direct cost and expenses incurred on the buildings amounted to ₱14.0 million, ₱13.27 million and ₱11.0 million in 2019, 2018 and 2017, respectively, shown under "Direct costs and expenses" in the statements of

comprehensive income. The carrying amount of the buildings being leased out is ₱23,703,655 and ₱25,029,039 as at December 31, 2019 and 2018, respectively.

The latest appraisal on the Group's land and building and improvements was on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach.

The Group's land with aggregate carrying amount of ₱651,901,500 as at December 31, 2019 and 2018 are subject properties under the MOA with ALC as disclosed in the Financial Statements. On November 29, 2019, the Group had agreed to cancel, terminate and rescind the MOA. Upon return of the title and refund of down payment, the Group recognized the cost of the land amounting to ₱64,216,267.

Land with aggregate carrying amount of ₱381,136,506 as at December 31, 2018, were mortgaged with PNB to secure the loans obtained by related parties which were already settled during 2018.

Land with aggregate amount of ₱6,484,935 as at December 31, 2019 and 2018 was under litigation.

Except from restrictions described above, there are no other restrictions on the realizability of its investment properties and no other contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Fully depreciated investment properties still in use as at December 31, 2019 and 2018 amounted to ₱3,290,824.

The properties of Plastic City Industrial Corporation booked under Land are located in various areas but majority is located in Canumay, Valenzuela. Properties at any one time or another are subject, in the ordinary course of business, to certain liens and/or encumbrance in favor of their respective bank creditors on short term basis for short term bank facilities, whether or not there are outstanding obligations thereto.

The company has no intention of acquiring property for the next twelve (12) months.

Location	Title No.	Area (In Sqm.)
<b>Inland Container Corp.</b>		
Canumay, Valenzuela	T-123319	7,529
Maysan, Valenzuela	T-152765*	9,363
	T-122791	733
	T-122792*	5,498
	T-122793*	5,328
	T-122794*	10,778
	T-122789	691
	T-122790	2,800.50
	V-13207	3,400
	V-13208	3,537
	V-19369	3,400
	T-100259	11,850
	T-100258	11,805
<b>Pacific Plastic Corp.</b>		
Valenzuela	T-123321	5,598
	T-95577	30,987
	T-111339 *	8,600
	T-112620	7,841
	T-122995	195
	T-109519*	469
<b>Kennex Container Corp.</b>		
Canumay, Valenzuela	T-116045	11,806
	V-3845	10,000
	V-4075	13,880
	T-104313	27,181
	V-4074	3,051
	V-3952	4,959

	V-3953	800
	T-118213	2,050
	T-124652	14,332
	V-6111	23,000
	T-143893	3,870
	T-123303 *	22,900
	T-123322	2,563
	T-128112	194
	T-133034	492
	T-126448	4,000
	T-140376	4,330
	T-139086	5,001
	T-136923	2,000
	T-116810	8,825
	T-117461	1,391
	T-139143	1,732
	T-129796	9,106
	T-144609	2,995
	T-152764 *	19,748
	T-122810*	400
	T-122811 *	813
	T-122812 *	800
	T-144412	6,132
	T-128111	214
	T-98405	240
	T-123439	240
	T-117459	800
<b>Rexlon Industries Corp.</b> Maysan, Valenzuela	T-123520	225
	V-5877	17,782
	V-5878	10,581
	T-144616	16,844
	T-144615	5,893
	T-144617	161
	T-120035	240
	V-5237	3,199
	V-5362	1,000
	T-145177	4,666
	V-2227	3,198
	V-6593	1,601
	V-6594	3,200
	V-6595	1,100
	V-6596	1,099
	V-7944	11,457
	V-3592	1,600

Included also in the Land are the four (4) properties of Parent Company located in Rodriguez (formerly Montalban), Rizal, with an aggregate value of ₱52,335,000 as at December 31, 2019 and 2018. The properties are not subject to any liens or encumbrances.

#	Location	Title	Area (In Sq. Meters)
1	Montalban, Rizal	TCT N- 330602	3,283
2	Montalban, Rizal	TCT N-330603	49,884
3	Montalban, Rizal	TCT N- 330604	33,817
4	Montalban, Rizal	TCT N- 330605	315,592

#### **Interest in Joint Operation**

The Group's investment in joint venture represents land contributed to the Joint Operation.

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp. (PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as

Owners, with Philippine Estates Corporation (PHES), as Developer, for the development of Metrotech Industrial Park. Under the agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City, whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) of the shall constitute the owners share, divided proportionately to the areas of property contributed.

The carrying amount of investments in a joint venture is as follows:

	2019	2018
<b>Cost</b>		
Balance at beginning of year	P590,214,111	P590,214,111
Transfer to investment properties	(19,656,742)	(19,656,742)
Balance at end of year	570,557,369	570,557,369
<b>Accumulated impairment loss</b>		
At beginning of year	47,641,000	47,641,000
Reversal of impairment loss	-	-
At end of year	47,641,000	47,641,000
<b>Net carrying amounts, December 31</b>	<b>P522,916,369</b>	<b>P522,916,369</b>

The Group's land is carried at cost, less accumulated impairment loss. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at December 31, 2019 and 2018, outstanding receivable from PHES amounted to P10,897,335 which pertains to the Group's share in the sale of lot net of expenses.

No liabilities, revenues and expenses recognized in relation to the joint venture in 2019 and 2018.

#### **Property, Plant and Equipment**

Details of the Group's property, plant and equipment as at December 31, 2019 are as follows:

	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Right-of-use asset	Total
<b>Cost</b>						
At beginning of year	P800,000	P547,522,657	P8,203,282	P8,828,122	P216,701	P565,354,061
Other movements	-	-	-	-	-	-
Balance at end of year	800,000	547,522,657	8,203,282	8,828,122	216,701	565,354,061
<b>Accumulated Depreciation</b>						
At beginning of year	800,000	439,228,176	8,203,282	8,823,042	72,234	470,043,083
Depreciation	-	7,508,709	-	5,080	108,350	7,513,789
Other movements	-	-	-	-	-	-
Balance at end of year	800,000	459,725,468	8,203,282	-	180,584	477,556,872
<b>Impairment loss</b>						
Balance at beginning	-	80,120,199	-	-	-	80,120,199
Other movements	-	-	-	-	-	-
Balance at end of year	-	80,120,199	-	-	-	80,120,199
<b>Net carrying amount</b>	<b>P-</b>	<b>P7,676,990</b>	<b>P-</b>	<b>P-</b>	<b>P36,117</b>	<b>P7,676,990</b>

*Machinery and equipment includes the following:*

Pipe Systems Plant		Blow Moulding / PET Plant	
Section	Machine	Section	Machine
PE	55 mm YEI – 1	Blowing	Bekum - 1
	55 mm YEI – 2		Bekum - 2
	55 mm YEI – 3		Bekum - 3
	55 mm YEI – 4		Bekum - 4

PVC	55 mm YEI – 5 80 mm YEI – 1 80 mm YEI – 2 90 mm YEI – 1  CMT 58 CMT 68 PPI 77 PPI 90		Bekum - 5 Tahara - 1 Tahara - 2 Tahara - 3 Tahara - 4 Ardor Fongkee 55 - 1 65 - 1
<b>Injection Moulding Plant</b>			
<b>Section</b>	<b>Machine</b>	<b>Section</b>	<b>Machine</b>
IWASAKI	PM – 1 Nissei * PM - 2 Nissei * PM - 3 Nissei * PM - 4 Nissei * PM - 5 Nissei * PM - 6 Nissei * PM - 7 Nissei * PM - 8 Nissei * PM - 9 Nissei * PM - 10 Nissei * PM - 11 Nissei * PM - 12 Nissei * PM - 14 Nissei * PM - 15 Nissei * PM - 16 Nissei * PM - 17 Nissei * PM - 18 Nissei * PM - 19 Nissei * PM - 20 Nissei * PC - 51 Nissei PC - 52 Nissei PC - 53 Nissei PC - 54 Nissei PC - 55 Nissei PC - 56 Nissei PC - 57 Nissei PC - 58 Nissei 40 OZ JSW 60 OZ JSW 125 OZ Natco 140 OZ Natco 200 A OZ Nissei 200 B OZ Nissei	PPC/PCC	PM - 21 Nissei * PM - 22 Nissei * PC - 29 Nissei PC - 30 JSW PC - 39 KF PC - 40 Jon Wai PC - 41 Natco PC - 42 Jon Wai PC - 43 Jon Wai PC - 44 Jon Wai PC - 45 Jon Wai PC - 46 Nissei PC - 41 Natco PC - 42 Jon Wai PC - 47 Nissei PC - 48 Nissei PC - 49 Nissei PC - 50 Nissei 75 – 1,2,3 90 – 1 90 – 2 100 – 1 100 – 2 100 – 3 100 – 4 100 – 5 Aoki 250 LL Aoki 250 LL Aoki 250 LL
		PET	
		<b>Thermoforming Plant</b>	
		Extrusion	E2 – Wellex E2 – Taiwan E3 – Taiwan
	260 OZ Natco PC - 51 Nissei PC - 52 Nissei PC - 53 Nissei PC - 54 Nissei PC - 55 Nissei PC - 56 Nissei PC - 57 Nissei PC - 58 Nissei 40 OZ JSW	Thermoforming	T1 – Dippiemme T2 – Dippiemme T3 – Illig T4 – Illig T5 – Illig T6 – Illig T7 – Illig T8 – Illig T9 – Illig V1 – Taiwan
Rimming	R1 – Dippiemme R2 – Illig R3 – Dippiemme	Printing	P1 – Moss P2 – Omso P3 – Osmo

Since the company stopped the operation and focused in leasing the warehouses here are the lists of lessees as of December 31, 2019:

No.	Name of Lessee	Co.	Area in sqm	Contract Period	Quarterly Rental Income
1	SMYPC - MANILA GLASS PLANT - bldg 22-B	ICC	1,134	04/01/18-03/31/20	258,188
2	SMYPC - MANILA PLASTIC PLANT - bldg 30	ICC	2,200	04/01/18-03/31/20	500,894
3	SMYPC - MANILA PLASTIC PLANT - bldg 32	ICC	3,052	06/05/18-06/05/20	694,876
4	SMYPC - MANILA PLASTIC PLANT - bldg 33	ICC	2,900	06/14/18-06/14/20	776,786
5	SMYPC - MANILA PLASTIC PLANT - bldg 37	ICC	2,160	08/16/19-08/16/20	578,571
6	SMYPC - MANILA PLASTIC PLANT - bldg 41	ICC	2,736	08/16/19-08/16/20	732,857
7	SMYPC - MANILA PLASTIC PLANT - bldg 42	ICC	1,980	08/16/19-08/16/20	530,383
8	CRISTINE GUEVARRA - bldg 34A	ICC	2,000	10/01/19-09/30/21	210,000
9	TRIPLE SEVEN J.R.T. BUILDERS - B15 (formerly Sta. Rita Builders)	KCC	1,100	07/01/18-12/31/19	279,911
10	GRACEFUL LOGISTICS	KCC	2,000	05/15/18-05/14/20	300,000
11	OYTANA TRUCKING AND LOGISTICS INC.	KCC	1,000	06/01/18-05/31/20	150,000
12	JESSIE LYN B. TAJALE - BUILDING 43A	KCC	1,409	10/01/19-09/30/21	377,411
13	JESSIE LYN B. TAJALE - BUILDING 43B	KCC	375	10/01/19-09/30/21	100,446
14	SAN MIGUEL BREWERY INC.- bldg 23	PPC	3,105	04/01/19-04/30/20	706,942
15	SAN MIGUEL BREWERY INC.- shipping yard	PPC	1,430	04/01/19-04/30/20	210,670
16	SAN MIGUEL BREWERY, INC - Bldg 24	PPC	1,476	03/01/19-03/31/20	336,054
17	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	PPC	1,500	03/01/19-03/31/20	220,982
18	JHSA CORP. (formerly Big Thumb Ent. - bldg 23 open space)	PPC	35	03/01/19-12/31/19	9,000
19	GOENG MARKETING - Bldg 26	PPC	524	01/01/19-12/31/19	119,304
20	FUDSOURCE CORPORATION - bldg 19	PPC	1,050	01/15/19-01/15/20	253,125
21	HIGANTIS CONTRACTOR CORP. - bldg 18	PPC	697.50	08/01/19-07/31/20	177,489

### 3.) Risks

The Group is exposed to a variety of financial risk which results from both its operating and financing activities. The Group's risk management is coordinated with the Board of Directors, and focuses on actively securing the short-term cash flows by minimizing the financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Group is exposed to are described below:

#### a) Credit risk

Credit risk refers to the risk that counterparty will default its contractual obligation resulting in financial loss to the Group. The Group's credit risk is primarily attributable to its financial assets which composed of cash, trade and other receivables, instalment contract receivables and advances to related parties.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, as summarized below:

#### *Credit risk exposure*

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

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

The Group's current credit risk grading framework is as follows:

Category	Description	Basis for recognizing ECLs	Base	Minimum Allowance for credit losses	Stage
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	25%	25%	2
In default	Amount is over 1 year to 2 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	50%	25%	3
	Amount is over 2 years to 3 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	100%	25%	3
	Amount is over 3 years to 5 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - not credit impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is write off	100%	100%	3

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below:

December 31, 2019					
		Basis of recognizing ECL	Gross Carrying Amount	Loss allowance	Net carrying amount
Cash in bank	(a)		₱11,694,706	₱-	₱11,694,706
Trade and other receivables	(b)	Lifetime ECL	134,369,868	(90,670,276)	43,699,592
Advances to related parties	(b)	Lifetime ECL	165,863,569	(135,461,784)	30,401,785
<b>Total</b>			<b>₱311,928,143</b>	<b>(₱226,132,060)</b>	<b>₱85,796,083</b>

December 31, 2018					
		Basis of recognizing ECL	Gross Carrying Amount	Loss allowance	Net carrying amount
Cash in bank	(a)		₱12,593,158	₱-	₱12,593,158
Trade and other receivables	(b)	Lifetime ECL	133,792,702	(71,729,232)	62,063,470
Installment contract receivable	(c)	Lifetime ECL	57,316,896	-	57,316,896
Advances to related parties	(d)	Lifetime ECL	169,561,830	(121,182,068)	48,379,762
<b>Total</b>			<b>₱373,264,586</b>	<b>(₱192,911,300)</b>	<b>₱180,353,286</b>

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash as described below.

*Cash in bank*

The credit risk for cash in bank is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱500,000 for every depositor per banking institution.

*Trade and other receivables*

Credit risk arising from rental income from leasing of buildings is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants.

For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables.

The Group has applied simplified approach to measure the loss allowance at lifetime ECL on trade and other receivables.

*Advances to related parties*

For advance related to parties, the Group has applied the simplified approach to measure the loss allowance using management's adopted policy on ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

To measure the ECL, trade and other receivables, and advances to related parties have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade and other receivables, and advances to related parties are a reasonable approximation of the loss rates for the financial assets.

*Installment contract Receivables*

The Group reviews compliance by the debtor to agreement and takes into consideration the financial position of the debtor. The Group continuously assesses the compliance of both parties to the covenants attached to the Contract to Sell. The identified impairment loss on installment contract receivable is immaterial, hence no ECL is recognized.

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined based on months past due, as follows for trade and other receivables, and advances to related parties.

December 31, 2019	Gross Amount			Total	Lifetime ECL
	ECL Rate	Trade and other receivables	Advances to related parties		
<b>Performing</b>	<b>0.00%</b>	<b>2,324,188</b>	<b>-</b>	<b>2,324,188</b>	<b>-</b>
<b>Doubtful</b>					
1-30 days	0.25%	1,413,223	-	1,413,223	3,533
31-90 days	1.25%	950,468	-	950,468	11,881
91-180 days	2.50%	185,948	-	185,948	4,649
181-360 days	6.25%	476,616	-	476,616	29,789
<b>In Default</b>					
1-2 years	12.50%	-	-	-	-
2-3 years	25%	893,627	-	893,627	223,407
3-5 years	50%	75,457,560	60,803,569	136,261,129	68,130,565
<b>Write off</b>	<b>100%</b>	<b>52,668,238</b>	<b>105,060,000</b>	<b>157,728,238</b>	<b>157,728,238</b>
		<b>134,369,868</b>	<b>165,863,569</b>	<b>300,233,437</b>	<b>226,132,060</b>

December 31, 2018	Gross Amount				Lifetime ECL
	ECL Rate	Trade and other receivables	Advances to related parties	Total	
Performing	0.00%	1,967,728	-	1,967,728	-
Doubtful				-	-
1-30 days	0.25%	883,352	-	883,352	2,208
31-90 days	1.25%	728,627	-	728,627	9,108
91-180 days	2.50%	127,520	-	127,520	3,188
181-360 days	6.25%	1,045,953	500	1,046,453	65,403
In Default					
1-2 years	12.50%	893,627	26,360	919,987	114,998
2-3 years	25.00%	75,477,657	64,474,970	139,952,627	34,988,157
3-5 years	50.00%	-	-	-	-
Write off	100.00%	52,668,238	105,060,000	157,728,238	157,728,238
		133,792,702	169,561,830	303,354,532	192,911,301

The management continues to review trade and other receivables and advances to related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower to settle on a net basis.

Impaired accounts represent account of third parties and related parties that have not paid for a long time and for which the Group believes that a portion of the receivables may not be collected. The allowance is estimated based on the Group's estimate for accounts which it believes may no longer be collected.

(b) Equity Price Risk

Equity Price Risk is the risk that the fair value of equity instrument decreases as a result of changes in the value of individual stocks. The Group's exposure to equity price risk arises from investments held by the Group and classified in the Group's statements of financial position as financial asset at FVOCI.

Equity instruments designated at FVOCI in unquoted price are held for strategic rather than trading purposes. The Group does not actively trade these investments.

If the price of the financial assets at FVOCI had been 10% higher/lower other comprehensive income for the years ended December 31, 2019 and 2018 would decrease/increase by ₱1,250,000.

(c) Liquidity Risk

The Group's policy is to maintain a balance between continuity of funding through cash advances from related parties.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table below has been drawn up based on undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay.

December 31, 2019	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities*	₱-	₱4,396,120	₱-	₱4,396,120
Lease Liability	-	40,090	-	40,090
Advances from related parties	493,413,638	-	-	493,413,638
Advances from lessees	-	6,192,985	-	6,192,985
	₱493,413,638	₱10,629,195	₱-	₱504,042,833

\*excluding government liabilities

December 31, 2018	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities	₱–	₱4,332,314	₱–	₱4,332,314
Advances from related parties	483,331,456	–	–	483,331,456
Advances from lessees	–	3,715,351	–	3,715,351
	₱483,331,456	₱8,047,665	₱–	₱491,379,121

*\*excluding government liabilities*

Substantial portion of the Group's financial liabilities consist of advances from related parties. There are no specific terms of advances agreed with the related parties. The Group does not expect to pay its liabilities with related parties nor expect related parties to collect within twelve (12) months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

#### 4.) Legal Proceedings

##### A. Corporate Rehabilitation

On October 28, 2010, PCIC subsidiaries (namely ICC, PPC and KCC) with certain affiliates jointly filed a petition for corporate rehabilitation in order to revive its manufacturing operations. The Philippine National Bank (PNB) was the majority creditor.

On March 20, 2018, in order to terminate the proceedings and to finalize the settlement of all obligations of the Group with the creditors, the Group entered into a Settlement Agreement with the creditors to pay ₱950 million (the 'Settlement Amount') payable in two tranches (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty days after). Once the creditors received the Settlement Amount, the creditors released the titles and issued the corresponding Cancellation of Mortgage of its lien over third party Davao collaterals and the Valenzuela properties of the Group. Also, PNB sold the Quirino, Manila properties (previously foreclosed third party collateral) to Novateknika Land Corp (NLC) for a consideration of ₱170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC were released and discharge by the creditors from any and all claims, suits, and causes actions of whatever kind and nature against each other.

In view of the Settlement Agreement between the parties, on May 31, 2018 Valenzuela RTC has rendered a decision that the corporate rehabilitation case is now closed and terminated.

The Company is considering re-entry into the real estate market, specifically the development of industrial estates/subdivisions, for which it has already gained sufficient expertise in its operations in Valenzuela City.

The Company has put on hold its plans to acquire a mining company with an existing MPSA with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environment and Natural Resources (DENR) had placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

##### B. G.R. No. 249337 entitled, "WATERFRONT PHILIPPINES, INC. (WPI), WELLEX INDUSTRIES, INC. (WII), AND THE WELLEX GROUP, INC. (TWGI) vs. SOCIAL SECURITY SYSTEM (SSS)", pending before the Supreme Court

On 28 October 1999, SSS and WPI, WIN, and TWGI executed a "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" (the "subject contract") for a term loan facility in favor of WPI where the principal amount of the loan is Three Hundred Seventy Five Million Pesos (₱375,000,000.00) for a term of five (5) years with interest on the principal amount at the equivalent rate of 364-day Philippine T-bill plus 3% but not lower than 14.5% per annum, re-priced annually.

As security for the said loan, WPI, as accommodation mortgagor, constituted a mortgage in favor of SSS over two (2) parcels of land registered under its name situated in Quezon City with a total area of 6,687.7 square meters, more or less, with TCT No. N-153395 and TCT No. N-

153396, which were later on transferred under the name of SSS under TCT No. N-281261 and TCT No. N-281262.

On 31 March 2004, SSS filed a case against WPI, WIN and TWGI stated that the total obligation of WPI per the updated Statement of Account computed as of 31 March 2004 amounts to Four Hundred Fifty-Two Million Seven Hundred Fifty Thousand Eight Hundred Eighty-Six and Twenty-Eight Centavos (Php452,750,886.28).

The Regional Trial Court dismissed the case and ordered SSS to reconvey to WIN the two (2) parcels of land covered by Transfer Certificate of Title Nos. N-153395 and N-153396 both of the Register of Deeds of Quezon City and return the certificate of shares of WPI, WIN and TWGI.

In an appeal before the Court of Appeals, the said court reversed and set aside the order of the RTC and ordered that the extrajudicial foreclosure of the two mentioned properties were valid and WPI to pay the deficiency loan with interest.

WPI, WIN and TWGI filed a Petition for Review before the Supreme Court on 4 November 2019. The SC ordered SSS to file its Comment.

As of August 31, 2020, the case is still pending.

- C. *Wellex Industries, Inc. (formerly known as Republic Resources and Development Corporation) v. Macquarie Green Properties, Inc., et al., Civil Case No. 3185-19 SM (For: Annulment of Public Auction Sale, Reconveyance, Cancellation and Reinstatement of Title and Damages), Regional Trial Court (RTC), Branch 75, San Mateo, Rizal*  
Land with an aggregate carrying amount of ₱6,484,934.87 as at June 30, 2020 and 2019 were under litigation.

On June 24, 2019, the Parent Company filed a civil case for annulment of public auction reconveyance, cancellation and reinstatement of title and damages with the Regional Trial Court of San Mateo Rizal (RTC). The complaint filed was dismissed by the RTC through the Resolution dated October 30, 2019 for failure of the Parent Company to pay the full jurisdictional amount. The Parent Company filed Motion for Reconsideration arguing that it was ready and willing to pay the full jurisdictional amount had the Office of the Clerk of Court (OCC) made the proper assessment, which was its duty and in which assessment plaintiff merely relied on. The Parent Company also argues that the rule on the payment of docket fees should apply by analogy since the deposit required is also a jurisdictional amount and, accordingly, should be given time to pay the deposit upon reassessment by the OCC.

On February 10, 2020, the Motion for Reconsideration was dismissed for lack of merit. Parent Company has prepared its Certiorari Petition before the Supreme Court to be filed within the month of June, following the administrative circular on court submission.

As of August 31, 2020, the case is still pending.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

***A copy of the Audited Financial Statements as of December 31, 2019 and Unaudited Second Quarter of 2020 Financial Statements are herein attached.***

### **PLAN OF OPERATION**

Since the Company ceased its downstream plastic manufacturing operations due to high production costs and stiff competition, the focus of its operations was shifted to leasing its warehouse facilities. The Company has reorganized its operations by leasing out its vacant facilities to interested operators.

The Company is considering re-entry into the real estate market, specifically the repositioning of its 21-hectare industrial estate in Valenzuela City into a mixed-use project, and the development of industrial estates/subdivisions in new locations, for which it has already gained sufficient expertise in its existing operations.

The Parent Company has put on hold its plans to acquire a mining company with an existing Mineral Product Service Agreement (MPSA) with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environment and Natural Resources (DENR) has placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

#### Projected Plan For The Next Twelve (12) Months:

We have elected not to pursue our Agreement with Avida Land Corporation (ALC) for the development of our 21-hectare property in Valenzuela City. The project will now be undertaken in joint venture with Philippine Estate Corporation (PHES), an affiliate, and will involve the conversion of the industrial estate into a mixed-use hub with complimentary commercial, office and residential zones. We are certain that this shift in character will greatly increase the value of our property and will encourage the development and growth of a new Central Business District for Valenzuela City.

#### *Business and Operations*

Based on current operation, the Company's cash requirements can be generated internally from rental income from the remaining lease contracts. However, should there be substantial deviation from the Company's commercial activities, there might be a need to raise funds by way of advances from shareholders or officers and affiliates. In any case, the Group has substantial amount of trade receivables and receivables from related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve months.

#### *Project Research and Development*

The group will explore new business opportunities in the development of industrial estates, and to this end, ocular inspections for suitable raw land for development into industrial estates are being carried out in Cavite, Laguna, Batangas and Bulacan. Discussions have been carried out with local government city planning officials in order to determine which sites are candidates for long-term success, and we are in constant communication with urban planners and construction engineers in order to fully understand the financial feasibility models for the development of these industrial estates.

#### *Manpower and Capital Asset Requirements*

Manpower will be outsourced when needed and when the operation commences. A capital-infusion and build-up program is also contemplated in order to breathe life into the group's financial standing, the size and timing of which will be directly related to the planned entry into new business endeavors.

Consequently, the Parent Company's financial statements have been prepared assuming that the Parent Company will continue as a going concern. The Company's financial statements do not include any adjustments relating to recoverability and classification of the recorded assets or the recognition and classification of liabilities that might result from the outcome of this uncertainty.

#### **Financial Highlights**

The following table shows the comparative operating data and financial statements of the Company for the years ending December 31, 2019, 2018, 2017 and 2016.

	As of December 31 (Amounts in Php '000)			
	2019	2018	2017	2016
<b><i>Income Statement</i></b>				
Rental Income	<b>₱29,530</b>	₱22,860	₱17,492	₱14,958
Direct cost and Expense	<b>(14,003)</b>	(13,270)	(11,001)	(9,461)
Operating Expense	<b>(19,374)</b>	(17,315)	(23,008)	(24,701)
Loss from Continuing Operations	<b>(3,847)</b>	(7,725)	(16,518)	(19,204)
Other income (expenses)	<b>(35,441)</b>	(12,811)	(788)	129,574
Income tax expense – current & deferred	<b>(2,670)</b>	(1,818)	(763)	(2,588)
Net Income (Loss) for the year	<b>(41,958)</b>	(22,354)	(18,069)	107,782
Earnings (Loss) Per Share	<b>(0.0128)</b>	(0.0068)	(0.0055)	0.0329
<b><i>Balance Sheet</i></b>				
Current Assets	<b>69,586</b>	145,398	145,809	144,594
Noncurrent Assets	<b>1,606,488</b>	1,568,613	1,665,487	1,683,366
Total Assets	<b>1,676,074</b>	1,714,011	1,811,296	1,827,960

Current liabilities	11,392	17,496	13,857	18,159
Noncurrent liabilities	494,133	483,999	503,114	497,406
Stockholder's equity	1,170,549	1,212,516	1,294,335	1,312,395
Total Liabilities & Equity	<b>1,676,074</b>	<b>1,714,011</b>	<b>1,811,296</b>	<b>1,827,960</b>

### **Calendar Year Ended December 31, 2019 vs. Calendar Year Ended December 31, 2018**

#### **The Top Five (5) Key Performance Indicators**

The Company and its subsidiaries determine their performance on the following five (5) key performance indicators.

1. Revenue Growth – the company gauge its performances by determining rental income and the number of tenants for the year. For the year ended December 31, 2019, the Group has an average of ₱1,406,213 rental income per tenant (with 21 areas being leased) or an increase of ₱263,208 or 23.03% as compared to last year (with 20 areas being leased out).
2. Receivables – the company assesses the collection receivables and management of credit line by determining the past due ratio done thru the aging receivables. The company considers receivables over 60 days as past due. This is derived by dividing past due receivables by the total outstanding receivable.
3. Gross Profit Margin – this is derived by dividing the gross profit over the revenues amount.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations.
5. Advances by the Affiliates – this is to determine, how much the obligations of the company of which, are the affiliated companies are the responsible in paying that liabilities.

<b>Indicator</b>	<b>2019</b>	<b>2018</b>
Revenue	<b>23.03%</b>	17.62%
Receivables (Past Due Ratio)	<b>91.45%</b>	95.41%
Gross Profit Rate	<b>52.58%</b>	41.95%
Working Capital	<b>610.84%</b>	831.03%
Advances Ratio	<b>0.00%</b>	0.00%

For the year 2019, all working capital requirements came from the rental income generated by the subsidiaries and advances from affiliates.

### **CHANGES IN RESULTS OF OPERATION**

#### **Revenues and Earnings per share**

Total revenues for the year 2019 and 2018 are ₱29.5 million and ₱22.9 million, respectively. The Group has ceased manufacturing operations since 2002 and currently disposed to lease out its warehouse facilities. Due to these circumstances, revenue for the year increased by ₱6.7 million or 29.25%. As of December 31, 2019, the Group has twelve (11) tenants occupying 21 areas. Rental rates were increased to cover overhead and fixed expenses.

Earnings (loss) per share comparisons from year 2019 and 2018 as follows: (₱0.0128) and (₱0.0068) respectively.

#### **Cost and Expenses**

Total expenses as reflected on the table consist of direct cost, operating expenses and finance cost net of other income for each year.

Direct cost consisted primarily of property taxes, security services, depreciation, repairs and maintenance and insurance. Direct cost for 2019 increased by ₱0.7 million or 5.26% as compared to last year due to the following movement; higher property taxes paid for the current year by ₱1.2 million or 27.91% due to assessment of taxes, increased in security expense by ₱0.5 million or 13.51% due to increase in fees and additional personnel, lower repairs and maintenance expense during the year by ₱1.2 million or 48%, and increased in insurance by ₱0.2 million or 90.91%.

Operating expenses for 2019 increased by ₱2.1 million or 12.14% mainly due to the following: decreased depreciation expense by ₱1.6 million or 21.33% as most of the property are fully depreciated, increased salaries and wages by ₱1 million or 43.48% due to additional employees, increased taxes and licenses by ₱1.2 million or 92.30% due to assessment in taxes, decreased professional fee of ₱0.2 million or 8.33%, increased in communication, light and water by ₱0.6 million or 54.55% due to lesser use of utilities, increased in commission by ₱0.5 million or 62.50% due to higher tenants made of agents, increased in security service by ₱0.07 million or 14% due to more personnel, increased in listing and maintenance fee by ₱0.2 million or 66.67% due to increase in fee of PSE listing and maintenance, increased in SSS, Medicare and EC contributions by ₱0.1 million or 66.67% due to higher number of employees, increased in transportation and travel by ₱0.01 million or 16.67%, increased in office supplies by ₱0.00 million or 65.76% due to additional supplies purchased, decreased in rent expense by ₱0.2 million or 100% as this was reclass of Lease Liability based on the new guideline, PFRS 16 and increased in miscellaneous by ₱0.3 or 50%.

In 2019, Other Expenses incurred increased by ₱22.6 million or 1.84% compared last year due to provision for ECL (PFRS guidelines) by ₱16 million or 93.00%.

## **CHANGES IN FINANCIAL CONDITION**

### **Current Assets**

#### *Receivables*

This account consists of trade receivable from rental and related parties, advances to third parties and reimbursable utilities expenses from tenants of PCIC. Rental receivables are collectible monthly based on terms of the contract. This year, receivables account decreased by ₱18.4 million or 29.59% due to additional allowance for ECL. Advances to third parties represent receivable from a previously disposed subsidiary with a corresponding allowance for doubtful accounts.

#### *Prepaid expenses and other current assets*

This account increased by ₱0.8 million or 5.73% due to recognition of creditable withholding taxes and input VAT incurred for the year. The carrying amounts of the creditable withholding tax and input taxes are reduced to the extent that they are no longer probable that sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

As of December 31, 2019, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

### **Noncurrent Assets**

#### *Advances to Affiliates*

This account consists of advances made by the company to finance the working capital requirements of its subsidiaries.

The recorded balance as of December 31, 2019 and 2018 amounted to ₱30.4 million and ₱48.4 million, respectively. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

#### *Investment Properties*

This account consists of land and buildings and improvements held primarily to earn rentals and for capital appreciation and future development. The land and buildings and improvements were situated in Valenzuela, Metro Manila and Rodriguez (formerly Montalban) Rizal is carried at revalued amounts as determined by an independent firm of appraisers. A portion of the land with an aggregate amount of ₱6,484,935 as at December 31, 2019 and 2018 was under litigation. An increase in the Investment Properties was caused by the rescission of MAO with ALC last November, 2019.

#### *Interest in a Joint Operation*

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp.(PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as Owners with Philippine Estates Corporation (PHES), as Developer. Under the agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City,

whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) shall constitute the owners share, divided proportionately to the areas of property contributed.

The Group's land is carried at cost, less accumulated impairment loss. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at December 31, 2019 and 2018, outstanding receivable from PHES amounted to ₱10,897,335, respectively, which pertain to the Group's share in the sale of lot net of expenses.

No revenue and expenses recognized in relation to the joint venture in 2019 and 2018.

#### *Property and Equipment*

This consists of buildings and improvements, machinery and equipment, transportation equipment and tools and furniture and fixtures of PCIC subsidiaries used for the manufacture of plastic products and food processing.

Depreciation and amortization are computed using the straight –line method over the estimated lives of the assets. The decrease is due to the depreciation provision during the year. At present, the Group has no contractual commitment to acquire property and equipment as at December 31, 2019 and 2018.

Total depreciation charged to operating expenses amounted to ₱5.9 million, ₱7.5 million and ₱13.2 million in 2019, 2018 and 2017, respectively.

#### *Other Assets*

This consists mainly of Refundable Deposits. An amount of ₱0.18 million was recorded in year 2019 and 2018.

#### **Current Liabilities**

##### *Accounts Payable*

This account consists of trade payables to various suppliers of PCIC subsidiaries, deferred rental and government liabilities.

The amount recorded in year 2019 and 2018 are ₱5.2 million and ₱13.8 million, respectively. The decrease of ₱8.6 million or 62.56% was due to decrease in government liabilities.

#### **Advances from Related Parties**

This represents non-interest bearing cash advances extended by the affiliates and stockholders to the Company and its subsidiaries for working capital requirements. An increased by ₱10.1 million or 2.09% was recorded in 2019 due to the rescission of MOA with ALC.

Due to the adoption of PFRS 16 in 2019, the Company recorded lease liability as at December 31, 2019 amounting to ₱40,090.

#### **Advances from Lessee**

Lease contracts include payment of advance rental by the lessee which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period, less any corresponding obligation and damages. An increase by ₱2.5 million or 66.69% pertains to advance rental on the new and renewal of lease contracts.

### **Calendar Year Ended December 31, 2018 vs. Calendar Year Ended December 31, 2017**

#### **The Top Five (5) Key Performance Indicators**

The Company and its subsidiaries determine their performance on the following five (5) key performance indicators.

1. Revenue Growth – the company gauge its performances by determining rental income and the number of tenants for the year. For the year ended December 31, 2018, the Group has an average of ₱1,143,005 rental income per tenant (with 20 areas being leased) or an increase of ₱171,239 or 17.62% as compared to last year (with 18 areas being leased out). As the company terminates some of its lease contracts with various tenants resulted by the sale of the land with ALC, rental rates were raised to cover direct expenses.
2. Receivables – the company assesses the collection receivables and management of credit line by determining the past due ratio done thru the aging receivables. The company considers receivables over 60 days as past due. This is derived by dividing past due receivables by the total outstanding receivable. Gross Profit Margin – this is derived by dividing the gross profit over the revenues amount.
3. Gross Profit Margin – this is derived by dividing the gross profit over the revenues amount.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations.
5. Advances by the Affiliates – this is to determine, how much the obligations of the company of which, are the affiliated companies are the responsible in paying that liabilities.

Indicator	2018	2017
Revenue	17.62%	36.43%
Receivables (Past Due Ratio)	95.41%	95.25%
Gross Profit Rate	41.95%	37.10%
Working Capital	831.03%	1,024.08%
Advances Ratio	0.00%	0.00%

For the year 2018, all working capital requirements came from the rental income generated by the subsidiaries and advances from affiliates.

## CHANGES IN RESULTS OF OPERATION

### Revenues and Earnings per share

Total revenues for the year 2018 and 2017 are ₱22.9 million and ₱17.5 million, respectively. The Group has ceased manufacturing operations since 2002 and currently disposed to lease out its warehouse facilities. Due to these circumstances, revenue for the year increased by ₱5.4 million or 30.86%. As of December 31, 2018, the Group has twelve (12) tenants occupying 20 areas. Rental rates were increased to cover overhead and fixed expenses.

Earnings (loss) per share comparisons from year 2018 and 2017 as follows: (₱0.0068) and (₱0.0055) respectively.

### Cost and Expenses

Total expenses as reflected on the table consist of direct cost, operating expenses and finance cost net of other income for each year.

Direct cost consisted primarily of depreciation, security services, repairs and maintenance, property taxes and insurance. Direct cost for 2018 increased by ₱2.27 million or 20.64% as compared to last year due to the net effect/movement (i) lower property taxes paid for the current year by ₱1 million or 18.87%, (ii) increased in depreciation due to adjustment and new purchase of properties by ₱0.99million or 62.66%, (iii) higher expenses in repairs and maintenance for the buildings and equipment during the year by ₱2.08 million or 452.17% and (iv) increased of payment of Insurance by ₱0.21 million or 1,767% for the properties purchased.

Operating expenses for 2018 decreased by ₱5.7 million or 24.78% mainly due to net effect of; (i) lower depreciation by ₱5.68 million or 43% due to fully depreciated equipment used in operations, decrease in taxes and licenses by ₱0.40 million or 23% due to lower assessment in business permit, lower listing and maintenance fee by ₱0.33 million or 49% due to lower fees for 2018, less purchase of office supplies by ₱0.00 million or 57% and lower miscellaneous by ₱0.13 million or 17% and (ii) higher salaries and wages by ₱0.20 million or 10% for the additional employees, higher communication and light and water usage by ₱0.20 million or 22% due to additional tenants, higher commission of agents by ₱0.31 million or 61% due

to higher tenants and higher contributions by employer for the new hire employees by ₱0.03 million or 27%.

In 2018, Other Expenses was incurred with an increased by ₱12.02 million or 1,526% compared last year due to the new provision for ECL (PFRS guidelines) which was adopted by the company starting January 2018 and increase in finance cost during the current year. Income tax expense increased by ₱1.06 million or 138% in 2018 as compared in 2017.

## **CHANGES IN FINANCIAL CONDITION**

### **Current Assets**

#### *Receivables*

This account consists of trade receivable from rental and related parties, advances to third parties and reimbursable utilities expenses from tenants of PCIC. Rental receivables are collectible monthly based on terms of the contract. This year, receivables account decreased by ₱12.11 million or 16.33%. Advances to third parties represent receivable from a previously disposed subsidiary with a corresponding allowance for doubtful accounts.

The Group has applied PFRS 9 for the first time from January 1, 2018 and resulted in changes in accounting policies which will be discussed in the attached Notes. The credit quality and aging of trade and other receivables are also fully disclosed in the Notes to Consolidated Financial Statements.

#### *Installment Contract Receivable*

This account pertains to receivable from Avida Land Corp. (ALC) in connection with the Contract to Sell (CTS) entered by Pacific Plastic Corp. (PPC), a PCIC Subsidiary, and ALC last December 17, 2012, for the sale of 25,203 sqm of land located in Valenzuela City. The land is covered by the MOA with ALC and was classified as investment property with a carrying value of ₱75,609,000 which is equal to its fair value at the time of sale as determined by the recent appraisal.

The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) payable in 10% down payment, which was received in 2012, and the balance payable in three (3) equal installments from 2013 to 2015. PPC recognized loss on sale amounting to ₱18,747,000 in 2012. As of December 31, 2018 and 2017, current portion of installment contract receivable amounted to ₱57,316,896.

Upon receipt by PPC of the full payment of the purchase and provided that ALC is not in violation of the terms of the CTS or upon the request of the ALC, the parties shall execute the corresponding Deed of Absolute Sale covering the Property substantially in accordance with the Deed of Absolute Sale.

#### *Prepaid expenses and other current assets*

This account increased by ₱1.5 million or 12.73% due to recognition of creditable withholding taxes and input VAT incurred for the year. The carrying amounts of the creditable withholding tax and input taxes are reduced to the extent that they are no longer probable that sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

As of December 31, 2018, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

### **Noncurrent Assets**

#### *Advances to Affiliates*

This account consists of advances made by the company to finance the working capital requirements of its subsidiaries.

The recorded balance as of December 31, 2018 and 2017 amounted to ₱48.4 million and ₱115.5 million, respectively. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

The Group has applied PFRS 9 for the first time from January 1, 2018 and resulted in changes in accounting policies which will be discussed in the attached Notes to Consolidated Financial Statements.

#### *Investment Properties*

This account consists of land and buildings and improvements held primarily to earn rentals and for capital appreciation and future development. The land and buildings and improvements were situated in Valenzuela, Metro Manila and Rodriguez (formerly Montalban) Rizal is carried at revalued amounts as determined by an independent firm of appraisers. A decrease by ₱2.6 million is due to depreciation recognized for the year of the same amount which was charged to direct cost.

#### *Interest in a Joint Operation*

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp.(PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as Owners with Philippine Estates Corporation (PHES), as Developer. Under the agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City, whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) of shall constitute the owners share, divided proportionately to the areas of property contributed.

The Group's land is carried at cost, less accumulated impairment loss. Based on the recent appraisal of the property conducted by an independent firm of appraisers on December 9, 2015, the fair value of land is determined to be higher than its carrying amount. Previously recognized impairment loss amounting to ₱159,583,954 was reversed. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at December 31, 2018 and 2017, outstanding receivable from PHES amounted to ₱10,897,335, respectively, which pertain to the Group's share in the sale of lot net of expenses.

No revenue and expenses recognized in relation to the joint venture in 2018 and 2017.

#### *Property and Equipment*

This consists of buildings and improvements, machinery and equipment, transportation equipment and tools and furniture and fixtures of PCIC subsidiaries used for the manufacture of plastic products and food processing.

Depreciation and amortization are computed using the straight –line method over the estimated lives of the assets. The decrease is due to the depreciation provision during the year. At present, the Group has no contractual commitment to acquire property and equipment as at December 31, 2018 and 2017.

Total depreciation charged to operating expenses amounted to ₱7.5 million, ₱13.2 million and ₱13.3 million in 2018, 2017 and 2016, respectively.

#### *Other Assets*

This consists mainly of Refundable Deposits. An amount of ₱0.18 million was recorded in year 2018 and 2017.

#### **Current Liabilities**

##### *Accounts Payable*

This account consists of trade payables to various suppliers of PCIC subsidiaries, deferred rental and government liabilities.

The amount recorded in year 2018 and 2017 are ₱13.8 million and ₱11 million, respectively. The increase of ₱2.8M or 25.73% was due to increase in government liabilities.

#### **Advances from Related Parties**

This represents non-interest bearing cash advances extended by the affiliates and stockholders to the Company and its subsidiaries for working capital requirements. A decreased by ₱19.2 million or 3.82% was recorded in 2018.

The Group has applied PFRS 9 for the first time from January 1, 2018 and resulted in changes in accounting policies which will be discussed in the attached Notes to Consolidated Financial Statements.

### Advances from Lessee

Lease contracts include payment of advance rental by the lessee which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period, less any corresponding obligation and damages. An increase by ₱0.8 million or 28.25% pertains to advance rental on the new and renewal of lease contracts.

### Calendar Year Ended December 31, 2017 vs. Calendar Year Ended December 31, 2016

#### The Top Five (5) Key Performance Indicators

The Company and its subsidiaries determine their performance on the following five (5) key performance indicators.

1. Revenue Growth – the company gauge its performances by determining rental income and the number of tenants for the year. For the year ended December 31, 2017, the Group has an average of ₱971,766 rental income per tenant (with 18 areas being leased) or an increase of ₱259,497 or 36.43% as compared to last year (with 21 areas being leased out). As the company terminates some of its lease contracts with various tenants resulted by the sale of the land with ALC, rental rates were raised to cover direct expenses.
2. Receivables – the company assesses the collection receivables and management of credit line by determining the past due ration done thru the aging receivables. The company considers receivables over 60 days as past due. This is derived by dividing past due receivables by the total outstanding receivable.
3. Gross Profit Margin – this is derived by dividing the gross profit over the revenues amount.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations.
5. Advances by the Affiliates – this is to determine, how much the obligations of the company of which, are the affiliated companies are the responsible in paying that liabilities.

Indicator	2017	2016
Revenue	36.43%	25.85%
Receivables (Past Due Ratio)	95.25%	94.64%
Gross Profit Rate	37.10%	36.75%
Working Capital	1,024.08%	796.26%
Advances Ratio	0.00%	0.00%

For the year 2017, all working capital requirements came from the rental income generated by the subsidiaries and advances from affiliates.

### CHANGES IN RESULTS OF OPERATION

#### Revenues and Earnings per share

Total revenues for the year 2017 and 2016 are ₱17 million and ₱15 million, respectively. The Group has ceased manufacturing operations since 2002 and currently disposed to lease out its warehouse facilities. Due to these circumstances, revenue for the year increased by ₱2million or 16.94%. As of December 31, 2017, the Group has nine (9) tenants occupying 18 areas. Rental rates were increased to cover overhead and fixed expenses.

Earnings (loss) per share comparisons from year 2017 and 2016 as follows: (₱0.0055) and ₱0.0329 respectively.

#### Cost and Expenses

Total expenses as reflected on the table consist of direct cost, operating expenses and finance cost net of other income for each year.

Direct cost consisted primarily of depreciation, security services, repairs and maintenance, property taxes and insurance. Direct cost for 2017 increased by ₱1.5 million or 16.28% as compared to last year due to the net effect: (i) higher property taxes paid for the current year by ₱2.89 million or 120%, higher repairs

and maintenance by ₱0.14 million or 43% and (ii) decreased in depreciation due correction/adjustment by ₱1.49 million or 49%, and decreased in payment of insurance by ₱0.00 million or 8% in year 2016.

Operating expenses for 2017 decreased by ₱1.7 million or 6.85% mostly due to; (i) decreased in professional fees by ₱0.57 million or 20%, salaries of employees by ₱0.26 million or 11% due to resigned employees, communication and light and water consumption by ₱0.29 million or 24%, commission by ₱0.03 million or 5%, transportation expense by ₱0.00 million or 12%, office supplies by ₱0.01 million or 42% and miscellaneous expense by ₱0.79 million or 51% and (ii) an increased in listing and maintenance fee by around ₱0.34 million or 134%.

In 2017, the company incurred other expenses as compared to last year's other income with a decrease by ₱128.79 million or 101% due to no sale of investment in subsidiaries and properties. Income tax expense decreased by 71% in ₱1.83 million or 2017 as compared in 2016.

## **CHANGES IN FINANCIAL CONDITION**

### **Current Assets**

#### *Receivables*

This account consists of trade receivable from rental and related parties, advances to third parties and reimbursable utilities expenses from tenants of PCIC. Rental receivables are collectible monthly based on terms of the contract. This year, receivables account decreased by ₱1.8 million or 2.44%. 37 Advances to third parties represent receivable from a previously disposed subsidiary with a corresponding allowance for doubtful accounts. The credit quality and aging of trade and other receivables are fully disclosed in the Notes to Consolidated Financial Statements.

#### *Installment Contract Receivable*

This account pertains to receivable from Avida Land Corp. (ALC) in connection with the Contract to Sell (CTS) entered by Pacific Plastic Corp. (PPC), a PCIC Subsidiary, and ALC last December 17, 2012, for the sale of 25,203 sqm of land located in Valenzuela City. The land is covered by the MOA with ALC and was classified as investment property with a carrying value of ₱75,609,000 which is equal to its fair value at the time of sale as determined by the recent appraisal.

The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) payable in 10% down payment, which was received in 2012, and the balance payable in three (3) equal installments from 2013 to 2015. PPC recognized loss on sale amounting to ₱18,747,000 in 2012. As of December 31, 2017 and 2016, current portion of installment contract receivable amounted to ₱57,316,896.

Upon receipt by PPC of the full payment of the purchase and provided that ALC is not in violation of the terms of the CTS or upon the request of the ALC, the parties shall execute the corresponding Deed of Absolute Sale, covering the Property substantially in accordance with the Deed of Absolute Sale.

#### *Prepaid expenses and other current assets*

This account increased by ₱0.4 million or 3.48% due to recognition of creditable withholding taxes and input VAT incurred for the year. The carrying amounts of the creditable withholding tax and input taxes are reduced to the extent that they are no longer probable that sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

As of December 31, 2017, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

### **Noncurrent Assets**

#### *Advances to Affiliates*

This account consists of advances made by the company to finance the working capital requirements of its subsidiaries.

The recorded balance as of December 31, 2017 and 2016 amounted to ₱114.8 million and ₱131.1 million, respectively. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

#### *Investment Properties*

This account consists of land and buildings and improvements held primarily to earn rentals and for capital appreciation and future development. The land and buildings and improvements were situated in Valenzuela, Metro Manila and Rodriguez (formerly Montalban) Rizal is carried at revalued amounts as determined by an independent firm of appraisers. A decrease by ₱1.6 million is due to depreciation recognized for the year of the same amount which was charged to direct cost.

#### *Interest in a Joint Operation*

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp.(PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as Owners with Philippine Estates Corporation (PHES), as Developer. Under the agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City, whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) of shall constitute the owners share, divided proportionately to the areas of property contributed.

The Group's land is carried at cost, less accumulated impairment loss. Based on the recent appraisal of the property conducted by an independent firm of appraisers on December 9, 2015, the fair value of land is determined to be higher than its carrying amount. Previously recognized impairment loss amounting to ₱159,583,954 was reversed. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at December 31, 2017 and 2016, outstanding receivable from PHES amounted to ₱10,897,335, respectively, which pertain to the Group's share in the sale of lot net of expenses.

#### *Property and Equipment*

This consists of buildings and improvements, machinery and equipment, transportation equipment and tools and furniture and fixtures of PCIC subsidiaries used for the manufacture of plastic products and food processing.

Depreciation and amortization are computed using the straight –line method over the estimated lives of the assets. The decrease is due to the depreciation provision during the year. At present, the Group has no contractual commitment to acquire property and equipment as at December 31, 2017 and 2016. \

Total depreciation charged to operating expenses amounted to ₱13.2 million, ₱13.3 million and ₱13.5 million in 2017, 2016 and 2015, respectively.

#### *Other Assets*

This consists mainly of Refundable Deposits. An amount of ₱0.18 million was recorded in year 2017 and 2016.

#### **Current Liabilities**

##### *Accounts Payable*

This account consists of trade payables to various suppliers of PCIC subsidiaries, deferred rental and Value Added Tax.

The amount recorded in year 2017 and 2016 are ₱11 million and ₱15.4 million, respectively. The decrease of ₱4.5 million or 28.94% was due to settlement of subsidiaries' payable during the year using the proceeds from the sale of investment property.

##### **Advances from Related Parties**

This represents non-interest bearing cash advances extended by the affiliates and stockholders to the Company and its subsidiaries for working capital requirements. A decreased by ₱1.1 million or 0.22% was recorded in 2017.

##### **Advances from Lessee**

Lease contracts include payment of advance rental by the lessee which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period, less any corresponding obligation

and damages. An increase by ₱0.3 million or 12.51% pertains to advance rental on the new and renewal of lease contracts.

**(i) Summary of Material Trends, Events and Uncertainties**

**Plastic City Industrial Corporation and its Subsidiaries**

PCIC and its subsidiaries have ceased operations but have leased out their warehouse facilities. The intention of the Group is to continue its operations by focusing on “injection moulding” due to its very encouraging prospect and which was shown to have a high viability rating that will contribute highly towards the Group’s maximum operations and financial position. Management is continuously in search of reliable joint venture partners who have means to continue its operations.

See Business and General Information No. 4 Legal Proceedings.

**(ii) Events that will Trigger Direct of Contingent Financial Obligation**

Since the Plastic City Industrial Corporation ceased in manufacturing operation there are no events that will trigger direct of contingent financial obligation that is material to Wellex Industries Inc. including any default or acceleration of an obligation.

**(iii) Material Off-Balance Sheet Transactions, Arrangements, Obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of Wellex Industries Inc. with unconsolidated entities or other persons created during the reporting period. The present activity of the company is focused on reorganizing its operations in preparation for its new businesses.

**(iv) Commitment For Capital Expenditures**

Since the Plastic City Industrial Corporation ceased manufacturing operations, there are no commitments on major capital expenditures.

**(v) Any Known Trends, Events of Uncertainties (Material Impact on Net Sales / Net Income)**

The Group has ceased manufacturing operations since 2002 and currently disposed to lease out its warehouse facilities. Rental Income recorded for the year 2019 compared to 2018 increased by 29.18%. As of December 31, 2019 there are eleven (11) lessees occupying 21 areas such as the warehouses, shipyards, open spaces and extensions inside the Plastic City premise. Rental rates were increased to cover fixed and overhead expenses.

Current ratio (current assets over current liabilities) as of December 31, 2019 is 610.84% with current assets of ₱69.59 million over ₱11.4 million current liabilities. The Group’s policy to address liquidity risk is to maintain a balance between continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees’ premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

**(vi) Significant Element of Income or Loss That Did Not Arise From Continuing Operation**

PCIC and subsidiaries ceased manufacturing operations in 2001 and leased out their warehouse/ building facilities. The intention of the Company is to continue its operation by focusing on activities such as “injection molding due to their very encouraging prospects and which have shown to have a high viability rating that will contribute highly towards the Company’s maximum operation and financial position.

But the company is now more focus on leasing its warehouses.

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

The Company has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in changes in accounting policies and adjusted amounts recognized in the financial statements. The comparative figures have been restated to comply with the transitional provisions in PFRS 9.

**(vii) Material Changes on Line Items in Financial Statements**

Material changes on line items in financial statements are presented under the captions ‘Changes in Financial Condition’ and ‘Changes in Results of Operation’.

**(viii) Effect of Seasonal Changes in the Financial Condition or Results of Operations**

The financial condition or results of operations is not affected by any seasonal change.

**Undertaking**

Wellex Industries, Inc., as registrant, will provide the stockholders a copy of SEC Form 17- A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the Office of the Corporate Secretary c/o WELLEX INDUSTRIES, INC. 35<sup>th</sup> Floor, One Corporate Centre Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City, Philippines. It can also be downloaded in the company website.

**Interim Period as of Quarter Ended June 30, 2020**

Below are the results of operations of the Parent Company and its subsidiaries as of the Quarter ended June 30, 2020 together with its financial conditions as of the same period.

- Unaudited Income Statement

	Amounts in PhP			
	Apr-Jun, 2020	Apr-Jun, 2019	Jan-Jun, 2020	Jan-Jun, 2019
<b>Income Statement</b>				
Rental Income	<b>₱5,480,903</b>	₱6,993,052	<b>₱13,599,032</b>	₱14,132,584
Direct Costs and Expenses	<b>3,088,582</b>	3,769,775	<b>6,345,850</b>	6,124,976
Gross Profit	<b>2,392,321</b>	3,223,277	<b>7,253,182</b>	8,007,609
Operating Expenses	<b>4,295,459</b>	7,525,189	<b>7,935,723</b>	12,547,598
Loss from Operations	<b>(1,903,137)</b>	(4,301,912)	<b>(682,541)</b>	(4,539,990)
Other Income	<b>27,992</b>	82,999	<b>110,333</b>	(285,409)
Finance Costs	-	-	-	-
Loss before Tax	<b>(1,875,146)</b>	(4,218,914)	<b>(572,207)</b>	(4,825,399)
Income Tax Expense	<b>1,577,885</b>	-	<b>1,577,885</b>	-
<b>Net Loss for the period</b>	<b>(3,453,031)</b>	(4,218,914)	<b>(2,150,093)</b>	(4,825,399)
<b>Loss per share</b>	<b>(₱0.0011)</b>	(₱0.0013)	<b>(₱0.0007)</b>	(₱0.0015)

- Unaudited Balance Sheet

	June 2020	June 2019	December 2018
<b>Balance Sheet</b>			
Current Assets	<b>₱66,737,892</b>	₱132,310,293	₱69,586,713
Noncurrent Assets	<b>1,602,334,359</b>	1,561,786,401	1,606,488,015
<b>Total Assets</b>	<b>1,669,072,251</b>	1,694,096,694	1,676,074,728
Current Liabilities	<b>13,431,325</b>	18,661,653	11,391,941
Noncurrent Liabilities	<b>487,241,605</b>	467,744,273	494,133,373
Stockholders' Equity	<b>1,168,399,322</b>	1,207,690,769	1,170,549,414
<b>Total Liabilities and Equity</b>	<b>₱1,669,072,251</b>	₱1,694,096,694	₱1,676,074,728

**Key Performance Indicators**

The Parent Company is still in the process of discussing with potential investors for planned forays into new business lines. Its subsidiary, PCIC, has ceased its manufacturing operation since 2002 due to Asian crises and stiff business competition and had leased out its building facilities for revenue. The Group determines their performance on the following five (5) key performance indicators:

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 2nd quarter of 2020, the company has an average of ₱260,995 rental income per tenant or a decrease of ₱43,050.37 rental income per tenant or 14.16% as compared to 2nd quarter of 2019. Collection of receivables was affected due to negative impact to the finances of the tenants of the COVID 19 pandemic.

2. Receivables - the company assesses collection of receivables and management of credit by determining the past due ratio done thru the aging of receivables. For the second quarter of 2020, ratio of past due receivables to total outstanding was 95.57%. Since most of the contracts are short term (three to six months), past due ratio of receivables is maintained at least below 10% by the management. The current quarter exceeds the management gauge on past due receivables due to significant number of receivables from third parties which are no longer operating. These third parties are previous subsidiary of the Group.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. Second quarter of 2020 has a gross profit margin of 43.65%, lower by 25.78% for the second quarter of 2019. Increase pertains to higher rental income recorded for the current quarter.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations. Working capital ratio for second quarter of 2020 was 496.88% as compared to 709% on the second quarter of 2019. Decrease is attributable to decrease in current assets by ₱65.6 million or 49.56% and decrease in current liabilities by ₱5.2 million or 28.03%.
5. Advances by the Affiliates - For the second quarter of 2020, the company has total advances from affiliates amounting to ₱486.5 million or an increase of ₱19.4 million from last year's ₱467.1 million balance.

#### **Quarter ended June 30, 2020 as compared with quarter ended June 30, 2019**

#### **CHANGES IN RESULTS OF OPERATION**

As of the quarter ending June 30, 2020, the company has ceased manufacturing operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the second quarter of 2020 amounted to ₱5.5 million as compared to the same quarter of 2019 amounting to ₱7 million or a decrease of ₱1.5 million or 21.43%. Number of areas being leased out for the second quarter of 2020 is higher than the same quarter of 2019 and rental rates are adjusted higher to cover fixed and overhead expenses.

Income/(Loss) per share comparison for the quarter ended June 30, 2020 and 2019 are (₱0.0011) and (₱0.0013), respectively.

As of June 30, 2020, there are twelve (11) companies leasing inside the PCIC compound occupying twenty-one (21) areas.

	<b>Tenants</b>	<b>Area in sqm</b>	<b>Contract Period</b>	<b>Quarterly Rental Income (in PhP)</b>
1	SMYPC - MANILA GLASS PLANT - bldg 22-A	1,134	03/31/20-09/30/20	172,125
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	1,134	03/31/20-09/30/20	172,125
3	SMYPC - MANILA PLASTIC PLANT - bldg 30	2,200	03/31/20-09/30/20	333,929
4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/18-09/05/20	463,251
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/18-09/14/20	517,857
6	SMYPC - MANILA PLASTIC PLANT - bldg 37	2,160	08/16/19-08/16/20	385,714
7	SMYPC - MANILA PLASTIC PLANT - bldg 41	2,736	08/16/19-08/16/20	488,571
8	SMYPC - MANILA PLASTIC PLANT - bldg 42	1,980	08/16/19-08/16/20	353,588
9	CRISTINE GUEVARRA - bldg 34A	2,000	10/01/19-09/30/21	140,000
10	JESSIE LYN TAJALE - bldg 44	2,800	01/01/20-12/31/21	500,000
11	GRACEFUL LOGISTICS-open space 10	2,000	05/15/20-05/14/21	200,000
12	TRIPLE SEVEN J.R.T. BUILDERS - B15	1,100	01/01/20-12/31/20	196,429
13	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/20-05/31/21	100,000
14	SAN MIGUEL BREWERY INC.- bldg 23	3,105	04/01/19-04/30/20	504,285
15	SAN MIGUEL BREWERY INC.- shipping yard	1,430	04/01/19-04/30/20	150,278
16	SAN MIGUEL BREWERY, INC - Bldg 24	1,476	03/01/19-03/31/20	239,718
17	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	1,500	03/01/19-03/31/20	157,634
18	JHSA CORP. (formerly Big Thumb Ent. - bldg 23 open space	35	01/01/20-12/31/20	6,000

19	GOCHEMBROS CORP.- bldg 26 (formerly Goeng mktg)	524	01/01/20-12/31/20	93,571
20	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/20-01/15/21	187,500
21	HIGANTIS CONTRACTOR CORP. - bldg 18	697.50	08/01/19-07/31/20	118,326

### **Cost and Expenses**

Direct cost and operating expenses for the second quarter of 2020 totaled ₱7.4 million as compared to ₱11.3 million for the second quarter of 2019 or a decrease of ₱3.9 million or 34.31%. The amount was recorded and mainly attributable to the following:

1. Direct cost consists of depreciation expense, repairs and maintenance, security services, property taxes and insurance. Total direct cost recorded for the second quarter of 2020 amounted to ₱3.1 million and ₱3.8 million for the second quarter of 2019. Decrease is due to the following net effect: (i) decrease in property taxes paid by ₱0.2 million or 13.33% and (ii) decreased of repairs and maintenance by ₱0.5M or 100% since no repairs were made in 2020.
2. Operating expenses decreased by ₱3.2 million or 42.66% resulted by the decrease movements on the following accounts: depreciation expense by ₱1.5 million or 78.95% due to most of the properties are fully depreciated, professional fees by ₱.2 million or 20.00%, salaries by ₱0.5 million or 55.56% due to decrease in employees, taxes and licenses ₱0.1 or 5%, light & water by ₱0.2 million or 40.00% because of lesser use of utilities, commission & rebates by ₱0.3 million or 96.44%, others by ₱.4 million or 44.44% due to decrease in miscellaneous expense and SSS, Medicate and EC Contributions by ₱0.05 or 71.43% due to decrease in employees.
3. Other Income/Expense decreased by ₱0.06 million or 75.00% due to the effect of COVID 19 pandemic in the 2<sup>nd</sup> quarter with lower interest income by ₱0.00 million or 33.33%, lower miscellaneous expense which was decrease by ₱0.05 million or 62.50%.

### **CHANGES IN FINANCIAL CONDITION**

#### Cash

The Group's cash increased by ₱4.1 million or 79.87% as of June 30, 2020 as compared to the same quarter last year due to the following activities: (a) net cash provided in operating activities is ₱2.5 million, (b) net cash generated in investing activities is ₱1.9 million and (c) net cash used in financing activities ₱6.9 million.

#### Trade and Other Receivables (net)

Trade and Other Receivables (net) decreased by ₱11.1 million as compared to last year, mostly attributable to the increase in advances to third parties amounting to ₱6.0 million and rental receivables of ₱1.8 million and additional impairment by ₱18.9 million

Certain trade receivables were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (Note 25).

#### Installment Receivable

Upon return of the title and refund of down payment, the Group recognizes the land and reversal of the outstanding balance of installment contract receivable amounted to ₱57,316,896.

#### Property and equipment

There's a decrease in property and equipment amounting to ₱2.8 million or a decrease of 70.77% on the 2<sup>nd</sup> quarter of June 30, 2020 as compared last year due to reported depreciation.

#### Accounts Payable and other liabilities

Accounts payable pertains to the amount due to suppliers' payable from thirty (30) to ninety (90) days from the date of sale and do not bear any interest. The decrease of the amount is due to the decrease of government liabilities by ₱5.7 million or 44.08%

#### Advances to related parties

A decrease of ₱18.3 million or 39.14% versus last year was due to the application of PFRS 9 which was implemented last January 1, 2018. This will be briefly discussed in the Interim Consolidated Financial Statements attached on this report. Also, the decrease is due to collections and/or offsetting of related

receivables and payables among the Group. The Group, in the normal course of business, has transactions with related parties. Receivables from related parties with common key management are normally collected the following year, unsecured, non-interest bearing and with no guarantee.

### Undertaking

**A copy of Second Quarter Report for the period ended June 30, 2020 or SEC Form 17-Q will be made available in the Company website.**

#### (i) Summary of Material Trends, Events and Uncertainties

##### **Wellex Industries, Inc.**

The Parent Company has four properties in Rodriguez (formerly Montalban), Rizal, with an aggregate cost of ₱52,335,000 as at June 30, 2020 and 2019.

No.	Land Title	Area (in Sqm.)
1	TCT No. 330602	3,283
2	TCT No. 330603	49,884
3	TCT No. 330604	33,817
4	TCT No. 330605	315,592

Land with aggregate carrying amount of ₱6,484,935 as at June 30, 2020 and 2019, was under litigation.

As at June 30, 2020 and 2019, the Parent Company's properties are not subject to any liens or encumbrances.

##### **Plastic City Industrial Corporation and its Subsidiaries**

On October 28, 2010, PCIC subsidiaries (namely ICC, PPC and KCC) with certain affiliates jointly filed a petition for corporate rehabilitation in order to revive its manufacturing operations.

On March 20, 2018, in order to terminate the proceedings and to finalize the settlement of all obligations of the Group with the creditors, the Group entered into a Settlement Agreement with the creditors to pay ₱950 million (the 'Settlement Amount') payable in two tranches (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty days after). Once the creditors received the Settlement Amount, the creditors released the titles and issued the corresponding Cancellation of Mortgage of its lien over third party Davao collaterals and the Valenzuela properties of the Group. Also, PNB sold the Quirino, Manila properties (previously foreclosed third party collateral) to Novateknika Land Corp (NLC) for a consideration of ₱170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC were released and discharge by the creditors from any and all claims, suits, and causes actions of whatever kind and nature against each other.

In view of the Settlement Agreement between the parties, on May 31, 2018 Valenzuela RTC has rendered a decision that the corporate rehabilitation case is now closed and terminated.

The Company is considering re-entry into the real estate market, specifically the development of industrial estates/subdivisions, for which it has already gained sufficient expertise in its operations in Valenzuela City.

The Company has put on hold its plans to acquire a mining company with an existing MPSA with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environment and Natural Resources (DENR) had placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

#### (ii) Events that will Trigger Direct of Contingent Financial Obligation

There are no events that will trigger direct of contingent financial obligation that is material to Wellex Industries Inc. and its subsidiaries including any default or acceleration of an obligation.

**(iii) Material Off-Balance Sheet Transactions, Arrangements, Obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of Wellex Industries Inc. with unconsolidated entities or other persons created during the reporting period. The present activity of the company is focused on reorganizing its operations in preparation for its new businesses.

**(iv) Commitment for Capital Expenditures**

Since the Plastic City Industrial Corporation ceased manufacturing operations, there are no commitments on major capital expenditures.

**(v) Any Known Trends, Events of Uncertainties (Material Impact on Net Sales / Net Income and Liquidity)**

The Group has ceased manufacturing operation since 2002 and currently disposed to lease out its warehouse facilities. Rental income recorded for the year 2020 compared to 2019 decreased by 14.16%

As of June 30, 2020, there are eleven (11) lessees occupying 21 areas such as the warehouses, shipyards, open spaces and extensions inside the Plastic City premises. Rental rates were increased to cover fixed and overhead expenses.

Current ratio (current assets over current liabilities) as of the second quarter of 2020 is 709% with recorded current assets of ₱66.7 million over ₱13.4 million current liabilities. The Group's policy to address liquidity risk is to maintain a balance continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees' premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

**(vi) Significant Element of Income or Loss That Did Not Arise From Continuing Operation**

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

The Company has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in changes in accounting policies and adjusted amounts recognized in the financial statements. The comparative figures have been restated to comply with the transitional provisions in PFRS 9.

**(vii) Material Changes on Line Items in Financial Statements**

Material changes on line items in financial statements are presented under the "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Please refer to the attached Notes to Financial Statements.

**(viii) Effect of Seasonal Changes in the Financial Condition or Results of Operations**

The financial condition or results of operations is not affected by any seasonal change.

## MARKET INFORMATION

The principal market of Wellex Industries Inc. common equity is the Philippine Stock Exchange, Inc. (PSE) where it was listed in 1958. List of the high and low sales price by quarter for the last 3 years are as follows:

		High	Low
2020	First Quarter	0.190	0.180
	Second Quarter	0.209	0.168
2019	First Quarter	0.243	0.240
	Second Quarter	0.235	0.231
	Third Quarter	0.255	0.244
	Fourth Quarter	0.234	0.200
2018	First Quarter	0.200	0.191
	Second Quarter	0.250	0.235
	Third Quarter	0.280	0.265
	Fourth Quarter	0.247	0.240
2017	Third Quarter	0.197	0.194
	Fourth Quarter	0.194	0.182

Following is the price information as of September 29, 2020: high at ₱0.192, low at ₱0.188 and close at ₱0.192.

### (2) Holders

The numbers of shareholders of record as of August 31, 2020 were 1,002 and common shares issued and subscribed were 3,271,938,180.

### List of Top 20 Stockholders As of August 31, 2020

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	%
PCD NOMINEE CORP.	FILIPINO	913,838,225	27.930
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	6.438
ELVIRA A. TING	FILIPINO	111,850,000	3.418
KENNETH T. GATCHALIAN	FILIPINO	100,000,100	3.056
THE WELLEX GROUP, INC.	FILIPINO	80,000,000	2.445
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
ORIENT PACIFIC CORPORATION	FILIPINO	36,340,000	1.111
PCD NOMINEE CORP. (NON-FILIPINO)	FILIPINO	31,017,020	0.948
LI CHIH-HUI	FILIPINO	23,500,000	0.718
WELLEX GLOBAL EQUITIES, INC.	FILIPINO	4,050,000	0.124
INTERNATIONAL POLYMER CORP.	FILIPINO	2,700,000	0.083
CANDICE CHOA COCUACO	FILIPINO	850,000	0.026
RODOLFO S. ETRELLADO	FILIPINO	750,000	0.023
PROBITY SEC. NGT CORP.	FILIPINO	463,200	0.014
RICHARD L. RICARDO	FILIPINO	460,000	0.014
REGINA CAPITAL DEVELOPMENT CORP.	FILIPINO	300,000	0.009

### **CASH AND STOCK DIVIDEND DECLARED**

No cash or stock dividend has been declared in 2019, 2018 and 2017

### **RESTRICTION THAT LIMITS THE PAYMENT OF DIVIDENDS ON COMMON SHARES**

None.

### **RECENT SALES OF UNREGISTERED SECURITIES**

Not applicable.

## **DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS**

### **Directors and Executive Officers**

Names, ages, citizenship and position and office of all directors and executive officers:

<b>Name</b>	<b>Age</b>	<b>Citizenship</b>	<b>Position and Office</b>
Peter S. Salud	66	Filipino	Chairman of the Board
Kenneth T. Gatchalian	44	Filipino	President / Director
Elvira A. Ting	60	Filipino	Vice-President/Director
Richard L. Ricardo	57	Filipino	Treasurer/Director
William T. Gatchalian	71	Filipino	Director
Lamberto B. Mercado, Jr.	55	Filipino	Director
Omar M. Guinomla	48	Filipino	Director
James B. Palit-Ang	56	Filipino	Director
Ruben D. Torres	79	Filipino	Independent Director
Sergio R. Ortiz-Luis, Jr.	77	Filipino	Independent Director
Byoung Hyun Suh	63	Korean	Independent Director
Mariel L. Francisco	39	Filipino	Corporate Secretary

A brief description of the directors' and executive officers' business experience and other directorship held in other reporting companies for the last five (5) years are provided as follows:

	<b>Company</b>	<b>Position</b>
<b>Peter S. Salud</b> Chairman/Director Filipino 66 years old	Forum Pacific Inc. Wellex Petroleum Inc. Sands Mining & Development Corp. Manila Sands Hotel and Casino Inc. Philippine International Airways Sourthernpec Philippines Inc. Vista Buena Mining Corporation Country Garden Agri-Tourism Dev't Inc.	Chairman/Director President/Director Chairman/President/Director President/Director President/Director Chairman/President/Director Chairman/Director President/Director
<b>Kenneth T. Gatchalian</b> President/Director Filipino 44 years old BS in Architecture <i>University of Texas, USA</i>	Forum Pacific, Inc. The Wellex Group, Inc. Waterfront Philippines, Inc. Waterfront Manila Premier Devt., Inc. Acesite (Hotels) Phils., Inc. Philippine Estates Corporation Metro Alliance Holdings & Equities Corp. Orient Pacific Corporation Wellex Mining Corporation Westland Pacific Properties Corp. Wellex Petroleum, Inc. Recovery Development Corp. Novateknika Land Corp. Pacific Rehouse Corporation Crisanta Realty Development Corp. Palawan Estate Corp. Philippine International Airways Philfoods Asia, Inc. Sourthernpec Philippines Inc. Manila Bay Front Hotels, Inc. Poly Premier Property Devt. Corp. Wanda Prime Property Development Inc. Westland Pacific Properties Corporation North Luzon Premier Development Corp. Seabrook Resources and Dev't Corp Bulacan Harbour Development Corp. Bulacan Country Garden Devt. Corp.	Corp. Treasurer/ Director President/Director President/Director President/Director President/Director Vice Chairman/Director President/Director President/Director Chairman/President/Director Corp. Treasurer/Director Corp. Secretary/Director Chairman/President/Director Corp. Secretary/Director Chairman/President/Director Corp. Secretary/Director Corp. Secretary/Director Corp. Secretary/Director Chairman/President/Director Corp. Treasurer/Director Chairman/Director President/Director Chairman/Director Corp. Treasurer/Director Chairman/Director Chairman/President/Director Asst. Corp. Sec./Director Chairman/President/Director

<p><b>Elvira A. Ting</b>  Vice-President/Director  Filipino  60 years old  BS in Business Administration  Major in Management  <i>Philippine School of Business Administration</i></p>	<p>Forum Pacific, Inc.  Philippine Estates Corporation  Waterfront Philippines, Inc.  Acesite (Hotels) Phils., Inc.  Metro Alliance Holdings &amp; Equities Corp  The Wellex Group, Inc.  Recovery Development Corp.  Orient Pacific Corporation  Rexlon Realty Group, Inc.  Pacific Rehouse Corporation  Westland Pacific Properties Corporation  Crisanta Realty Devt. Corp.  Heritage Pacific Corporation  Palawan Estate Corporation  Seabrook Resources &amp; Dev't Corp  Poly Premier Property Devt. Corp.  Wanda Prime Property Dev't Inc.  Bocauae Prime Estate Corporation  Bulacan Fortune Land Dev't Corp.  Waterfront Manila Premier Devt., Inc.  Taguig Lake City Development Corp.  Country Garden Agri-Tourism Devt. Inc.  Alliance Energy Power &amp; Devt. Corp.  Plastic City Industrial Corp.</p>	<p>President/ Director  President/CEO/Director  Corp. Treasurer/Director  Corp. Treasurer/Director  Chairman/Director  Corp. Treasurer/Director  Corp. Treasurer/Director  Chairman/Director  Chairman/President/Director  Corp. Treasurer/Director  Asst. Corp. Sec./Director  Chairman/President/Director  Chairman/President/Director  Asst. Corp. Sec./Director  Corp. Secretary/Director  Corp. Treasurer/Director  President/ Director  President/ Director  Chairman/President/Director  Corp. Secretary/Director  President/ Director  Corp. Treasurer/Director  Corp. Secretary/Director  Corp. Treasurer/Director</p>
<p><b>Richard L. Ricardo</b>  Corp. Treasurer/Investor Relations  Officer/Director  Filipino  57 years old  BS in Management Economics  <i>Ateneo de Manila University</i></p>	<p>Forum Pacific, Inc.  Waterfront Philippines, Inc.  Acesite (Phils.) Hotel Corporation  Philippine Estates Corporation  The Wellex Group, Inc.  Rexlon Realty Group, Inc.  Westland Pacific Properties Corp.  Wellex Petroleum, Inc.  Wellex Mining Corporation  Bocauae Prime Estate Corporation  Taguig Lake City Development Corp  Bulacan Country Garden Dev't. Corp.  Alliance Energy Power &amp; Dev't. Inc.</p>	<p>Investor Relations Officer/  Director  Corporate Affairs  Officer/Compliance Officer  Vice President for Corporate  Affairs/Compliance Officer  Corp. Treasurer/Director  Corporate Secretary/Director  Vice President/Director  Corporate Secretary/Director  Corp. Treasurer/Director  Assist. Corp. Sec./Director  Corporate Secretary/Director  Corporate Secretary/Director  Corporate Secretary/Director  President/Director</p>
<p><b>William T. Gatchalian</b>  Director  Filipino  71 years old  BS in Management  <i>University of the East</i></p>	<p>The Wellex Group, Inc.  Wellex Petroleum Inc.  Manila Sands Hotel &amp; Casino Inc.  Bulacan Harbour Dev't. Corp  Philippine International Airways</p>	<p>Chairman/Director  Chairman/Director  Chairman/Director  Chairman/Director  Director</p>
<p><b>Atty. Lamberto B. Mercado, Jr.</b>  Director  Filipino  55 years old  Bachelor of Laws (L.L.B.)  <i>Ateneo de Manila University School of Law</i></p>	<p>Forum Pacific, Inc.  Metro Alliance Holdings &amp; Equities Corp.  CPDSI, AHI and FEZ  Waterfront Philippines, Inc.  Philippine National Construction Corp  Rexlon Realty Group, Inc.  Wellex Mining Corporation  Acesite (Hotels) Phils., Inc.  Southernpec Philippines Inc.  Dubai Gold Mining Corporation  Seabrook Resources &amp; Dev't Corp  Sands Mining &amp; Development Corp.  Bulacan Harbour Development Corp.  Wanda Prime Property Dev't, Inc.  Bulacan Country Garden Devt. Corp.</p>	<p>Director  Director/Compliance Officer  Director  Director  Director  Assist. Cop. Sec./Director  Corp. Secretary/Director  Chief Risk Officer/Director  Corp. Secretary/Director  Corp. Secretary/Director  Corp. Secretary/Director  Director  Corp. Secretary/Director  Director  Director</p>

<p><b>James B. Palit-Ang</b>  Director  Filipino  56 years old  BS in Business Administration  (Accounting)  <i>Philippine School of Business Administration</i></p>	<p>Noble Arch Realty &amp; Construction Corp.  Philippine Estates Corp.  Pacific Concorde Corporation  Crisanta Realty Development Corp.  Pacific Rehouse Corporation  Recovery Real Estate Corporation  Rexlon Realty Group, Inc.  Orient Pacific Corporation  Bulacan Fortune Land Dev't Corp.  Aristocrat Manila City Holdings, Inc.  North Luzon Premier Development Corp.  Manila Bay Front Hotels, Inc.  Vista Buena Mining Corp.  Dubai Gold Mining Corp.  Bird's Nest Resources Corp.  Philfoods Asia, Inc.  East Asia Oil &amp; Mining Company, Inc.  Metro Alliance Holdings &amp; Equities Corp.  Heritage Pacific Corporation  Forum Holdings Corporation</p>	<p>Chairman/President/Director  Director  Chairman/Director  Vice-President/Director  Asst. Corp Sec./Director  Chairman/President/Director  Corp. Secretary/Director  Corp. Secretary/Director  Director  Chairman/President/Director  President/Director  President/Director  President/Director  Corp. Treasurer/Director  Chairman/President/Director  Corp. Treasurer/Director  Chairman/President/Director  Treasurer  Asst. Corp Sec./Director  Chairman/President/Director</p>
<p><b>Omar M. Guinomla</b>  Director  Filipino  48 years old  A.B. Management  <i>De La Salle University</i>  Master's in Business Admin.  <i>Ateneo Graduate School of Business</i></p>	<p>Forum Pacific, Inc.  Recovery Real Estate Corp.  Pacific Rehouse Corp.  Orient Pacific Corp.  Recovery Development Corp.  Philippine International Airways  Continental Wire &amp; Cable Corporation  Shanghai Resources Corporation  Calinan Star Mining, Inc.  Dubai Gold Mining Corp.  Sands Mining &amp; Development Corp.  Manila Bay Front Hotels, Inc.  Bulacan Fortune Land Dev't Corp.  Triton Construction &amp; Dev't Corp.</p>	<p>Director  Director  Director  Assist. Corp. Sec./Director  Assist. Corp. Sec./Director  Corp. Treasurer/Director  Director  Chairman/President/Director  Director  Director  Corp. Secretary/Director  Corp. Secretary/Director  Corp. Secretary/Director  Corp. Secretary/Director</p>
<p><b>Atty. Ruben D. Torres</b>  Independent Director  Filipino  79 years old  Bachelor of Arts in Political  Science  Bachelor of Laws  <i>University of the Philippines</i></p>	<p>Forum Philippines Inc.  BPO Workers Association of the Phils.  Services Exporters Risk Management &amp;  Consultancy Co  Trade Union Congress of the Philippines  Torres Caparas Torres Law Offices  Waterfront Philippines Inc.  Acesite Philippines Hotel Corp.  Pacific Concorde Corporation  Wellex Mining Corporation  Waterfront Manila Premier Devt., Inc.  Alliance Energy Power and Devt. Inc.  Triton Construction and Devt. Corp.</p>	<p>Independent Director  President  Chairman/CEO    VP-International Affairs  Senior Partner  Independent Director  Independent Director  President/Director  Corp. Treasurer/Director  Director  Chairman/Director  Chairman/Director</p>
<p><b>Sergio R. Ortiz-Luis, Jr.</b>  Independent Director  Filipino  77 years old  BS in Liberal Arts  BS in Business Administration  Master in Business Administration  Masters in BA (Candidate)  <i>De La Salle University</i>  PhD Humanities hc  <i>Central Luzon Agricultural College</i>  PhD in Business Technology hc  <i>Eulegio Rodriguez University</i>  PhD Capital Management hc</p>	<p>Forum Pacific, Inc.  Philippine Estates Corporation  Waterfront Philippines, Inc.  Acesite (Phils) Hotel Corp.  BA Securities  Waterfront Manila Premier Devt., Inc.  Country Garden Agri-Tourism Devt. Inc.  Philippine International Airways  National Center for Mediation  Phil. Chamber of Commerce and Industry    Integrated Concepts &amp; Solutions, Inc.  Rotary Club of Greenmeadows Foundation</p>	<p>Independent Director  Independent Director  Independent Director  Independent Director  Independent Director  Chairman/Director  Chairman/Director  Chairman/Director  Chairman  Chairman/Treasurer    Chairman  Chairman</p>

<p><i>Academy of Multiskills, UK</i>  <i>Angeles University Foundation</i>  PhD Business Administration hc</p>	<p>Export Development Council  Alliance Global, Inc.  VC Securities Corporation</p> <p>JARDELI Club Foundation  Philippine Exporters Confederation Inc.  Employers Confederation of the Phils.  Philippines Foundation, Inc.  Asia Pacific Chinese Media, Inc.  GS1 and International Chamber of  Commerce Phils  Philippine Foundation, Inc. (Team Phils.)  Manila Exposition Complex, Inc.  La Salle Tech Academy  Alliance Energy Power and Dev't. Inc.  Rural Bank of Baguio  H2O (Formerly Calapan Ventures, Inc)  LikeCash Asia &amp; Pacific Corp  SPC Power Corporation  Drug Abuse Resistance Education Phils  Human Resource Dev't Foundation  Consulate of Romania in the Philippines  Consular Corps of the Philippines  Int'l Assoc. of Educators for World Peace  The Philippine Bamboo Council  Patrol 117 (Foundation for Crime  Prevention)  Industry Development Council  National Competitiveness Council  Philippine Jaycee Senate  Philippine Coastguard Auxilliary</p>	<p>Vice Chairman  Vice Chairman  Vice-Chairman/Independent  Director  Vice Chairman  President/CEO  President  President  President  Founding Director</p> <p>Director  Director  Director  Director  Director  Director  Director  Director  Director  Director  Director  Trustee/Treasurer  Consul General  Treasurer  Honorary Adviser  Private Sector Representative  Commissioner</p> <p>Member  BPLS Champion  Senate  Captain</p>
<p><b>Byoung Hyun Suh</b>  Independent Director  Korean  63 years old  BS in Business Administration  <i>Korea University, Seoul Korea</i></p>	<p>Forum Pacific, Inc.  Wellex Industries Inc.  Philippines Estates Corporation  Metro Alliance Holdings &amp; Equities Corp.  Pan Islands, Inc.  Overseas Korean Traders Associations  Bonamis Pharmacy Phil's. Corp.</p>	<p>Independent Director  Independent Director  Independent Director  Independent Director  President  President  President</p>
<p><b>Atty. Mariel L. Francisco</b>  Corporate Secretary  Filipino  39 years old  Bachelor of Laws  <i>Arellano University</i></p>	<p>Forum Pacific, Inc.  Philippine Estates Corporation  Acesite (Phils.) Hotel Corp.</p>	<p>Assistant Corporate Secretary  Assistant Corporate Secretary  Assistant Corporate Secretary</p>

### **CORPORATE GOVERNANCE**

The Corporation adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Corporation observes good governance and management practices. This is to assure the shareholders that the Corporation conducts its business with the highest level of integrity, transparency and accountability.

The board of Directors has approved its Corporate Governance Compliance Evaluation System in order to check and assess the level of compliance of the Company with leading practices on good corporate governance as specified in its Corporate Governance Manual and pertinent SEC Circulars. The System likewise highlights areas for compliance improvement and action to be taken. One of the system's output is the Annual Corporate Governance Compliance Evaluation Form submitted by the Corporation every year to the SEC and PSE.

There were minor deviations from the Corporation's Manual during the period January to December 2004 due mainly to recent changes and business development plans. Since it was a minor deviation, the former

president, Mr. Weslie T. Gatchalian, was issued a warning and written reprimand by the Exchange. The Company as represented by its Board of Directors was issued a written reprimand last June 11, 2010 also for not submitting its Revised Manual on Corporate Governance within the prescribed period of submission. The Company submitted its show-cause letter dated June 28, 2010 stating that it initially adopted not to revise its Manual and adopt instead the provisions of its Manual earlier filed with the Exchange. Subsequently, however, in order to comply with the directive of the Exchange, it was able to file its Revised Manual on Corporate Governance on the same date.

Wellex Industries, Inc. has consistently strived to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards.

The Company submitted its Integrated Annual Corporate Governance Report (IACGR) on August 13, 2020 covering the year 2019.

The independent directors have submitted their Certificate of Qualification as required by the SEC vis-à-vis Section 38 of the Securities Regulation Code.

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*Wellex Industries, Inc.*

**Financial Statements  
December 31, 2019 and 2018**

**Independent Auditor's Report**

**and**

**Audit Report on Additional Components  
Of the Financial Statements**

**Re: Wellex Industries, Inc.\_SEC Form 17-A Part1 & 2\_30June2020**

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From: MSRD COVID19 (msrd\_covid19@sec.gov.ph)

To: wellexindustries@yahoo.com

Cc: ictdsubmission@sec.gov.ph; cgfd@sec.gov.ph; nbleguarda@sec.gov.ph; cegaliza@sec.gov.ph

Date: Wednesday, July 1, 2020, 10:23 PM GMT+8

---

Dear Sir/Madam,

Acknowledging receipt of your email with attachments.

Thank you.

Regards,

**MARKETS AND SECURITIES REGULATION DEPARTMENT**  
**PHILIPPINE SECURITIES AND EXCHANGE COMMISSION**

On Tue, Jun 30, 2020 at 2:20 PM WELLEX INDUSTRIES, INC INCORPORATED <[wellexindustries@yahoo.com](mailto:wellexindustries@yahoo.com)> wrote:

Hi SEC,

Please see attached SEC Form 17A (PART1 & 2) of WELLEX INDUSTRIES, INC. together with the Certification for the submission of Annual Report through electronic email.

Thank you!

Regards,  
WELLEX INDUSTRIES, INC.

Re: Wellex Industries, Inc.\_SEC Form 17-A Part3\_30June2020

---

From: MSRD COVID19 (msrd\_covid19@sec.gov.ph)

To: wellexindustries@yahoo.com

Cc: ictdsubmission@sec.gov.ph; cgfd@sec.gov.ph; nbleguarda@sec.gov.ph; cegaliza@sec.gov.ph

Date: Wednesday, July 1, 2020, 10:23 PM GMT+8

---

Dear Sir/Madam,

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**MARKETS AND SECURITIES REGULATION DEPARTMENT**  
**PHILIPPINE SECURITIES AND EXCHANGE COMMISSION**

On Tue, Jun 30, 2020 at 2:20 PM WELLEX INDUSTRIES, INC INCORPORATED <[wellexindustries@yahoo.com](mailto:wellexindustries@yahoo.com)> wrote:

Hi SEC,

Please see attached SEC Form 17A (PART3) of WELLEX INDUSTRIES, INC. together with the Certification for the submission of Annual Report through electronic email.

Thank you!

Regards,  
WELLEX INDUSTRIES, INC.

## Certification

I, Annabelle T. Abunda, Compliance Officer of Wellex Industries, Inc. with SEC registration number 0000011790 with principal office at 35th Flr., One Corporate Center, Dona Julia Vargas, cor Meralco Ave., Ortigas Center, Pasig City, on oath state:

- 1) That on behalf of Wellex Industries, Inc., I have caused this Annual Report SEC Form 17-A to be prepared;
- 2) That I read and understood its contents which are true and correct of my own personal knowledge and/or based on true records;
- 3) That the company Wellex Industries, Inc. will comply with the requirements set forth in SEC Notice dated June 24, 2020 for a complete and official submission of reports and/or documents through electronic mail; and
- 4) That I am fully aware that documents filed online which requires pre-evaluation and/or processing fee shall be considered complete and officially received only upon payment of a filing fee.

IN WITNESS WHEREOF, I have hereunto set my hand this JUN 29 2020 day of

Affiant

QUEZON CITY  
SUBSCRIBED AND SWORN to before me this JUN 29 2020 day of \_\_\_\_\_, 20\_\_\_\_.

NOTARY PUBLIC

DOC# 12  
PAGE# 3  
BOOK# 81  
SERIES OF 2020

*Concepcion P. Villareña*  
ATTY. CONCEPCION P. VILLAREÑA  
Notary Public for Quezon City  
Until December 31, 2021  
PTR No. 9296041 – 1-2-2020/ QC  
IBP No. 093586 – 10-22-2019/ QC  
Roll No. 30457 – 05-09-86  
MCLE VI – 0030379  
Adm. Matter No. NP-101(2020-2021)  
TIN No. 131-942-754

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	1	7	9	0					
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Company Name

W	E	L	L	E	X		I	N	D	U	S	T	R	I	E	S		I	N	C	O	R	P	O	R	A	T	E	D	
A	N	D		S	U	B	S	I	D	I	A	R	I	E	S															

Principal Office ( No./Street/Barangay/City/Town)Province)

3	5	T	H		F	L	O	O	R	,		O	N	E		C	O	R	P	O	R	A	T	E					
C	E	N	T	E	R	,		D	O	Ñ	A		J	U	L	I	A		V	A	R	G	A	S		A	V	E	.
C	O	R	.		M	E	R	A	L	C	O		A	V	E	.	,		O	R	T	I	G	A	S				
C	E	N	T	E	R		P	A	S	I	G		C	I	T	Y	,		P	H	I	L	I	P	P	I	N	E	S

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	A		
---	---	--	--

### COMPANY INFORMATION

Company's Email Address

wellexindustries@yahoo.com
----------------------------

Company's Telephone Number/s

8706-7888
-----------

Mobile Number

NA
----

No. of Stockholders

NA
----

Annual Meeting  
Month/Day

October/08
------------

Fiscal Year  
Month/Day

December/31
-------------

### CONTACT PERSON INFORMATION

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

Name of Contact Person

Elvira A. Ting
----------------

Email Address

e.ting@wellex.com.ph
----------------------

Telephone Number/s

NA
----

Mobile Number

NA
----

Contact Person's Address

35Th Floor, One Corporate Center, Doña Julia Vargas Ave., Cor. Meralco Ave., Ortigas Center, Pasig City
---

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



# WELLEX INDUSTRIES, INC.

LISTED IN THE PHILIPPINE STOCK EXCHANGE

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of WELLEX INDUSTRIES, INCORPORATED AND SUBSIDIARIES is responsible for the preparation and fair presentation of the consolidated 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 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 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 consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Diaz Murillo Dalupan and Company, the independent auditors, appointed by the stockholders has audited the consolidated 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.

PETER S. SALUD  
Chairman of the Board

KENNETH T. GATCHALIAN  
President

RICHARD L. RICARDO  
Corporate Treasurer

SUBSCRIBED AND SWORN to before me in PASIG CITY City/Province, Philippines on JUN 29 2020 affiants personally appeared before me and exhibited to me their Tax Identification Number below:

Name	Tax Identification Number
1. PETER S. SALUD	107-777-803
2. KENNETH T. GATCHALIAN	167-406-526
3. RICHARD L. RICARDO	140-853-860

WITNESS MY HAND AND SEAL on the date and at the place above written.

DOC NO: 73  
PAGE NO: 10  
BOOK NO: CCXIII  
SERIES OF: A

EDNA C. CONDAY  
NOTARY PUBLIC  
PASIG PATEROS & SAN JUAN  
UNTIL DEC. 31, 2020  
PTR NO. 8423914/H-2-20  
IBP NO. 050031/APPT/NO. 5413015-25  
ROLL NO. 2680  
TIN NO. 240-582-33000  
MCEB/V10004933  
2ND FLOOR AMARABED GURBANO  
VELAZCOA/6/BALANQUAN PASIG CITY

***Wellex Industries Incorporated and  
Subsidiaries***

*Financial Statements  
December 31, 2019 and 2018*

*and*

*Independent Auditors' Report*

## **Independent Auditors' Report**

To the Board of Directors and Stockholders of  
**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
35<sup>th</sup> Floor, One Corporate Center  
Doña Julia Vargas Ave., cor Meralco Ave.  
Ortigas Center, Pasig City, Philippines

### **Report on the Audits of the Consolidated Financial Statements**

#### *Opinion*

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

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

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Code of Ethics for Professional Accountants in the Philippines (the 'Code of Ethics') together with the ethical requirements that are relevant to our audits 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.

#### *Material Uncertainty Related to Going Concern*

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicate that the Group had incurred losses in prior years and has accumulated deficit of about ₱2.129 billion and ₱2.088 billion as at December 31, 2019 and 2018, respectively. These factors, along with the matters discussed in Note 1 of the consolidated financial statements, may cast significant doubt about the Group's ability to continue as a going concern.

#### **Global Reach, Global Quality**

Head Office : 7th Floor, Don Jacinto Building, De la Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines • Phone: +63(2) 894 5892 / 844 9421 / Fax: +63(2) 818 1872  
Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Philippines • Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029  
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Philippines • Phone/Fax: +63(82) 222 6636  
Palawan Office : 2F MRC Building, Pineda Road, Brgy. San Pedro, Puerto Princesa City, Palawan 5300 Philippines • Phone +63(48) 716 1580  
Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

### *Our Response*

Our audit procedures to address the assessment in adoption of the PFRS 16 included the following:

- Obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered under PFRS 16, the selection of the transition approach and any election of available practical expedients
- Inspected lease agreement (i.e., lease agreement existing prior to the adoption of PFRS 16 and new lease agreement), identified its contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.
- Reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.
- Tested the parameters used in the determination of the incremental borrowing rate by reference to market data.
- Test computed the lease calculation prepared by management on a sample basis, including the transition adjustments, if any.
- Reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

### Going Concern

As disclosed in Note 1, the Group had accumulated deficit of ₱2,129,979,024 and ₱2,088,012,271 as at December 31, 2019 and 2018, respectively.

Our audit procedures to address going concern issue, which was considered to be a significant risk, included:

- Reviewed business plans and discussed it with the Board of Directors to assess its viability.
- Read minutes of meetings of stockholders, board of directors, and important committees of the board.
- Sought entity's legal counsel confirmation about any litigations, claims and assessments.
- Confirmed with related parties of the details of arrangements to provide or maintain financial support.
- Reviewed any subsequent events relevant to the Group's corporate rehabilitation.

### *Other information*

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

The Group has developed business plans for the rehabilitation of the subsidiaries operation, which include among others, development of its properties into residential condominiums, townhouses, and house and lots, as disclosed in Note 1 to the consolidated financial statements. Based on current operation, the Group's cash requirements can be generated internally from rental income from its remaining lease contracts. However, should there be substantial deviation from the Group's current commercial activities; there might be a need to raise funds by way of advances from shareholders or officers and affiliates. The Group has substantial amount of receivables and advances to related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve (12) months. The Group will explore new business opportunities in the development of industrial estates, and to this end, ocular inspections for suitable raw land for development into industrial estates are being carried out in Cavite, Laguna, Batangas and Bulacan. Discussions have been carried out with local government city planning officials in order to determine which sites are candidates for long-term success, and the Group is in constant communication with urban planners and construction engineers in order to fully understand the financial feasibility models for the development of these industrial estates.

We have conducted sufficient audit procedures to verify the validity of the management plan to address the material uncertainty related to going concern. Our opinion is not modified in respect of this matter.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

#### *First time Adoption of PFRS 16, Leases*

Effective January 1, 2019, the Group adopted the new lease standard, PFRS 16, Leases, under the modified retrospective approach which resulted to changes in the Group's lease recognition policies, processes, procedures and controls. The Group's adoption of PFRS 16 is significant to our audit because it involves application of significant management judgement and estimation in the following areas: (1) whether the contract contains a lease; (2) determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease; (3) determining the incremental borrowing rates; and (4) selection and application of accounting policy elections and practical expedients available under modified retrospective approach. This resulted in the recognition of right-of-use asset and lease liability amounting to ₱216,701 and ₱152,413, respectively, as of January 1, 2019, and recognition of depreciation expense and finance costs of ₱108,350 and ₱37,677, respectively, for the year ended December 31, 2019. The disclosures related to the adoption of PFRS 16 are included in Notes 10 and 18 to the consolidated financial statements.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**DIAZ MURILLO DALUPAN AND COMPANY**

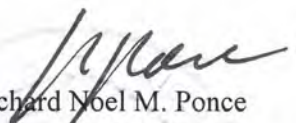
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 11, 2020

SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022

BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022

By:



Richard Noel M. Ponce  
Partner

CPA Certificate No. 120457

SEC Accreditation No. 1738-A, Group A, effective until January 30, 2022

Tax Identification No. 257-600-228

PTR No. 7344262, January 8, 2019, Makati City

BIR Accreditation No. 08-001911-012-2019, effective until September 29, 2022

June 11, 2020

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position**

	As at December 31	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - note 4	₱ 11,714,706	₱ 12,613,158
Trade and other receivables (net) - note 5	43,699,592	62,063,470
Installment contract receivable - note 21	-	57,316,896
Prepayments and other current assets - note 6	14,172,415	13,404,397
	<b>69,586,713</b>	<b>145,397,921</b>
<b>Noncurrent Assets</b>		
Financial assets at FVOCI - note 7	12,500,000	12,500,000
Advances to related parties (net) - note 18	30,401,785	48,379,762
Investment properties (net) - note 8	1,038,603,686	976,958,982
Interest in joint operation (net) - note 9	522,916,369	522,916,369
Property and equipment (net) - note 10	1,873,304	7,676,990
Deferred tax asset - note 17	12,027	-
Other assets	180,844	180,844
	<b>1,606,488,015</b>	<b>1,568,612,947</b>
<b>TOTAL ASSETS</b>	<b>₱ 1,676,074,728</b>	<b>₱ 1,714,010,868</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other liabilities - note 11	₱ 5,158,866	₱ 13,780,694
Advances from lessees - note 20	6,192,985	3,715,351
Lease liability - note 18	40,090	-
	<b>11,391,941</b>	<b>17,496,045</b>
<b>Noncurrent Liabilities</b>		
Advances from related parties - note 18	493,413,638	483,331,456
Retirement benefits obligation - note 16	708,900	667,200
Deferred tax liability - note 17	10,835	-
	<b>494,133,373</b>	<b>483,998,656</b>
	<b>505,525,314</b>	<b>501,494,701</b>
<b>Equity</b>		
Capital stock - note 12	3,276,045,637	3,276,045,637
Additional paid-in capital	24,492,801	24,492,801
Deficit	( 2,129,979,024)	( 2,088,012,271)
	<b>1,170,559,414</b>	<b>1,212,526,167</b>
Treasury stock - note 12	( 10,000)	( 10,000)
	<b>1,170,549,414</b>	<b>1,212,516,167</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 1,676,074,728</b>	<b>₱ 1,714,010,868</b>

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**

	<b>For the Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>RENTAL INCOME</b> - notes 8 and 20	<b>₱ 29,530,463</b>	₱ 22,860,095	₱ 17,491,792
<b>DIRECT COSTS AND EXPENSES</b> - note 13	<b>14,003,316</b>	13,270,248	11,001,579
<b>GROSS INCOME</b>	<b>15,527,147</b>	9,589,847	6,490,213
<b>OPERATING EXPENSES</b> - note 14	<b>19,374,570</b>	17,315,081	23,008,317
<b>LOSS FROM OPERATIONS</b>	<b>( 3,847,423)</b>	( 7,725,234)	( 16,518,104)
<b>OTHER INCOME (LOSS)</b> - note 15	<b>( 34,887,383)</b>	( 12,257,356)	327,355
<b>FINANCE COSTS</b> - notes 10 and 18	<b>( 553,916)</b>	( 553,916)	( 1,115,336)
<b>LOSS BEFORE INCOME TAX</b>	<b>( 39,288,722)</b>	( 20,536,506)	( 17,306,085)
<b>PROVISION FOR INCOME TAX</b> - note 17			
Current	<b>( 2,671,277)</b>	( 1,818,170)	( 763,187)
Deferred	<b>1,192</b>	-	-
	<b>( 2,670,085)</b>	( 1,818,170)	( 763,187)
<b>NET LOSS FOR THE YEAR</b>	<b>(₱ 41,958,807)</b>	(₱ 22,354,676)	(₱ 18,069,272)
<b>LOSS PER SHARE</b> - note 22	<b>(₱ 0.0128)</b>	(₱ 0.0068)	(₱ 0.0055)

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**

	<b>Capital Stock</b> (Note 12)	<b>Additional Paid- in Capital</b>	<b>Deficit</b>	<b>Treasury Stock</b> (Note 12)	<b>Total</b>
Balance at December 31, 2016	₱ 3,276,045,637	₱ 24,492,801	(₱ 1,988,134,312)	(₱ 10,000)	₱ 1,312,394,126
Net loss for the year	–	–	( 18,069,272)	–	( 18,069,272)
Balance at December 31, 2017, as previously stated	3,276,045,637	24,492,801	( 2,006,203,584)	( 10,000)	1,294,324,854
Effect on adoption of PFRS 9	–	–	( 59,454,011)	–	( 59,454,011)
Balance as at January 1, 2018, as restated	3,276,045,637	24,492,801	( 2,065,657,595)	( 10,000)	1,234,870,843
Net loss for the year	–	–	( 22,354,676)	–	( 22,354,676)
Balance at December 31, 2018, as previously stated	3,276,045,637	24,492,801	( 2,088,012,271)	( 10,000)	1,212,516,167
Effect on adoption of PFRS 16 - note 2	–	–	( 7,946)	–	( 7,946)
<b>Balance at January 1, 2019, as restated</b>	<b>3,276,045,637</b>	<b>24,492,801</b>	<b>( 2,088,020,217)</b>	<b>( 10,000)</b>	<b>1,212,508,221</b>
<b>Net loss for the year</b>	<b>–</b>	<b>–</b>	<b>( 41,958,807)</b>	<b>–</b>	<b>( 41,958,807)</b>
<b>Balance at December 31, 2019</b>	<b>₱ 3,276,045,637</b>	<b>₱ 24,492,801</b>	<b>(₱ 2,129,979,024)</b>	<b>(₱ 10,000)</b>	<b>₱ 1,170,549,414</b>

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax	(₱ 39,288,722)	(₱ 20,536,506)	(₱ 17,306,085)
Adjustments for:			
Depreciation - notes 8 and 10	8,519,716	10,085,352	14,759,692
Provision on ECL on:			
Trade and other receivables - note 5	18,941,043	9,610,598	–
Advances to related parties - note 18	14,279,716	7,563,687	–
Provision for retirement benefits - note 16	41,700	41,700	41,700
Finance costs - note 18	37,677	–	7,505
Interest income - note 4	( 13,257)	( 5,071)	( 6,071)
Gain on sale of investment properties - note 8	–	( 4,590,579)	–
Operating income (loss) before working capital changes	2,517,873	2,169,181	( 2,503,259)
Increase in:			
Trade and other receivables	( 2,723,997)	( 1,540,075)	( 2,200,126)
Prepayments and other current assets	( 553,112)	( 1,516,846)	( 399,674)
Increase (decrease) in:			
Accounts payable and other liabilities	( 2,480,730)	2,820,461	( 258,930)
Advances from lessees	2,477,634	818,338	322,218
Net cash generated from (used in) operations	( 762,332)	2,751,059	( 5,039,771)
Interest received - note 4	13,257	5,071	6,071
Income tax paid	( 2,886,184)	( 1,818,170)	( 763,186)
Net cash provided by (used in) operating activities	( 3,635,259)	937,960	( 5,796,886)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Collection of advances to related parties	1,242,908	4,155,742	15,484,129
Proceeds from sale of investment properties - note 8	–	46,800,000	–
Additions to investment properties - note 8	–	( 22,552,679)	–
Acquisition of financial assets at FVOCI - note 7	–	–	( 12,500,000)
Net cash provided by investing activities	1,242,908	28,403,063	2,984,129

*Forward*

*Continue*

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds of advances from related parties	<b>1,643,899</b>	–	1,655,925
Payments of advances from related parties	–	( 19,156,904)	–
Payment of lease liability	( <b>112,323</b> )	–	–
Payment of borrowings	–	–	( 159,619)
Finance cost paid - note 18	( <b>37,677</b> )	–	( 7,505)
Net cash provided by (used in) financing activities	<b>1,493,899</b>	( 19,156,904)	1,488,801
<b>NET INCREASE (DECREASE) IN CASH</b>	( <b>898,452</b> )	10,184,119	( 1,323,956)
<b>CASH - note 4</b>			
At beginning of year	<b>12,613,158</b>	2,429,039	3,752,995
At end of year	<b>₱ 11,714,706</b>	₱ 12,613,158	₱ 2,429,039

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

## **WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

As at December 31, 2019 and 2018 and for each of the three years  
in the period ended December 31, 2019

#### **1. CORPORATE INFORMATION, STATUS OF OPERATIONS AND MANAGEMENT PLANS**

**Wellex Industries Incorporated** (the „Parent Company“) was incorporated in the Philippines on October 19, 1956. The Parent Company engaged primarily in the business of mining and oil exploration and was known as Republic Resources and Development Corporation (REDECO). The Parent Company extended its corporate life for another fifty (50) years up to October 19, 2056 which was approved by the Securities and Exchange Commission (SEC) on July 20, 2007.

The Parent Company’s shares are listed and traded in the Philippine Stock Exchange (PSE).

The Parent Company wholly owns Plastic City Industrial Corporation (PCIC). PCIC has ceased its commercial operations but PCIC subsidiaries have leased out their warehouse and building facilities.

The financial position and results of operations of the Parent Company and its Subsidiaries, (herein referred to as the „Group“) are consolidated in these financial statements.

The registered office address of the Parent Company is located at 35<sup>th</sup> Floor, One Corporate Center, Doña Julia Vargas Ave., cor Meralco Ave., Ortigas Center, Pasig City, Philippines.

The consolidated financial statements as at and for the year ended December 31, 2019, including its comparatives for 2018 and 2017, were authorized and approved for issue by the Board of Directors (BOD) of the Parent Company on June 11, 2020.

#### **Status of Operations and Management Plans**

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The Group incurred losses in prior years which resulted to a deficit of ₱2,129,979,024 and ₱2,088,012,271 as at December 31, 2019, and 2018, respectively.

In prior years, the Parent Company’s business of mining and oil exploration became secondary to real estate and energy development. On January 28, 2008, the BOD approved the amendment of the Parent Company’s primary purpose from a holding company to a company engaged in the business of mining and oil exploration.

The purpose of the amendment of the primary purpose was essentially to enable the Parent Company to ride the crest of a resurgent mining industry including oil exploration of the country’s offshore oil fields. The Parent Company’s strategy is to identify mining properties with proven mineral deposits particularly nickel, chromite, gold and copper covered by Mineral Production Sharing Agreements (MPSAs) and to negotiate for either a buy-out or enter into a viable joint venture arrangement. For its oil and mineral exploration activities, the Parent Company has identified and conducted initial discussions with potential investors.

However, the continuing global financial crises dampened the metal and oil prices that adversely affected the investment environment of mining and oil, and mineral exploration industry of the country. To finance its operating expenses, the Parent Company obtains advances from related parties.

The Parent Company has put on hold its plans to acquire a mining company with an existing MPSA with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environment and Natural Resources (DENR) had placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

#### *Corporate Rehabilitation*

The PCIC subsidiaries' properties in Valenzuela City were used as collateral to secure loans obtained by the PCIC's subsidiaries, Inland Container Corp. (ICC), Pacific Plastic Corp. (PPC), and Kennex Container Corp. (KCC) and its related parties (the „Group“/ the „Petitioners“), Kenstar Industrial Corp. (KIC) and Plastic City Corp. (PCC) in prior years. The loan was obtained from Banco de Oro (BDO) and Philippine National Bank (PNB) through a joint Credit Agreement with the related parties. Due to a default in settling outstanding obligations, the Group filed a petition on October 28, 2010 for corporate rehabilitation before the Regional Trial Court of Valenzuela (RTC) under the provisions of Section 1, Rule 4 of Rules and Procedures on Corporate Rehabilitation, in order to revive the Petitioners manufacturing operations and bring them back to profitability for the benefit of the creditors, employees and stockholders.

On March 20, 2018, in order to terminate the proceedings and to finalize the settlement of all obligations of the Group with the creditors, the Group entered into a Settlement Agreement with the creditors to pay ₱950 million (the „Settlement Amount“) payable in two tranches (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty days after). Once the creditors received the Settlement Amount, the creditors released the titles and issued the corresponding Cancellation of Mortgage of its lien over third party Davao collaterals and the Valenzuela properties of the Group. Also, PNB sold the Quirino, Manila properties (previously foreclosed third party collateral) to Novateknika Land Corp (NLC) for a consideration of ₱170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC were released and discharge by the creditors from any and all claims, suits, and causes actions of whatever kind and nature against each other.

On the same date, the Group issued a check payable to the creditors amounting to ₱850 million. On April 11, 2018, the Group paid the balance of ₱100 million to complete its obligations under the Settlement Agreement.

In view of the Settlement Agreement between the parties, on May 31, 2018 Valenzuela RTC has rendered a decision that the corporate rehabilitation case is now closed and terminated.

#### *Redevelopment of the Plastic City Complex in Valenzuela*

On December 17, 2012, the Group and other related parties entered into a Memorandum of Agreement (MOA) with Avida Land Corp (ALC) for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, house and lots. Out of the total 21.3 hectares, 12.8 hectares (representing 60% of the aggregate area) was owned by the Group and its affiliates and around 8.5 hectares were owned by related parties.

By virtue of a Rescission Agreement dated November 29, 2019, the Group elected not to pursue their Agreement with ALC for the development of the real estate. The project will now be undertaken in a joint venture with Philippine Estate Corporation (PHES), an affiliate, and will involve the conversion of the industrial state into a mixed-use hub with complimentary commercial, office and residential zones. The Group believes that the conversion will increase the value of the property and will encourage the development and growth of a new Central Business District of Valenzuela.

### *Business and Operations*

Based on current operation, the Group's cash requirements can be generated internally from rental income from remaining lease contracts of its subsidiaries. However, should there be substantial deviation from the Group's current commercial activities; there might be a need to raise funds by way of advances from shareholders or officers and affiliates. The Group has substantial amount of receivables and advances to related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve (12) months.

The Group will explore new business opportunities in the development of industrial estates, and to this end, ocular inspections for suitable raw land for development into industrial estates are being carried out in Cavite, Laguna, Batangas and Bulacan. Discussions have been carried out with local government city planning officials in order to determine which sites are candidates for long-term success, and the Group is in constant communication with urban planners and construction engineers in order to fully understand the financial feasibility models for the development of these industrial estates.

Manpower will be outsourced when the operations commence and as the need arises. A capital-infusion and built-up program is also contemplated in order to breathe life into the Group's financial standing, the size and timing of which will be directly related to the planned entry into new business endeavors.

Consequently, the Group's financial statements have been prepared assuming that the Group will continue as a going concern. The Group's consolidated financial statements do not include any adjustments relating to the recoverability and classification of the recorded assets or the recognition and classification of liabilities that might result from the outcome of this uncertainty.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **Statement of Compliance**

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

### **Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

### **Functional and Presentation Currency**

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

### **Basis of Consolidation**

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

When the Parent Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Consolidation of subsidiaries begins when the Parent Company obtains control over the subsidiaries and ceases when the Parent Company loses control of the subsidiaries. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting year, using accounting policies that are consistent with those of the Parent Company. Intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

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

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

## Composition of the Group

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2019 and 2018. The details of its subsidiaries are as follows:

Subsidiaries	Principal Activity	Ownership	
		2019	2018
<b>Direct Ownership</b>			
PCIC	Manufacturing	100%	100%
<b>Indirect Ownership (Subsidiaries of PCIC)</b>			
ICC	Manufacturing	100%	100%
KCC	Manufacturing	100%	100%
PPC	Manufacturing	100%	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	100%	100%

### a) Direct ownership

#### *PCIC*

PCIC and its subsidiaries have ceased operations but have leased out their warehouse facilities. The intention of the Group is to continue its operation by focusing on “injection molding” due to its very encouraging prospect and which has shown to have a high viability rating that will contribute highly towards the Group’s maximum operation and financial position. Management is continuously in search for reliable joint venture partners who have the means to continue its operations.

### b) Indirect ownership

#### *ICC*

ICC was incorporated in the Philippines and registered with the SEC on June 23, 1981, primarily to engage in the manufacture of plastic containers. The Company ceased its commercial operations on July 30, 2000, and has leased out its buildings as warehouses.

#### *KCC*

KCC was incorporated in the Philippines and registered with the SEC on February 14, 1983. The Company was established to manufacture all kinds of plastic containers. The Company ceased its commercial operations on April 30, 2002, and has leased out its buildings as warehouses.

#### *PPC*

PPC was incorporated in the Philippines and registered with the SEC on October 1, 1982. The Company was established primarily to manufacture plastic raw materials, rigid and non-rigid plastic products, plastic compounds, derivatives and other related chemical substances. The Company ceased its commercial operations on May 16, 2002, and has leased out its buildings as warehouses.

#### *RIC*

RIC was incorporated in the Philippines and registered with the SEC on October 9, 1984. The Company was engaged in the business of manufacturing and molding plastic products. The Company ceased its commercial operations on April 30, 2002.

## Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2019:

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

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

On initial application, the Group has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use asset and lease obligation of ₱216,701 (with accumulated depreciation of ₱72,234) and ₱152,413 respectively were recorded as at January 1, 2019, with ₱7,946 effect in deficit. When measuring lease liability, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 24.72%.

Reconciliation of operating lease commitment under PAS 17 as at December 31, 2018 and lease liability as at January 1, 2019 under PFRS 16 is as follows:

Operating lease commitment as at December 31, 2018 under PAS 17	₱200,000
Less: Commitments relating to short-term lease and low value-leases	–
Operating lease commitment as at December 31, 2018 scoped-in under PFRS 16	200,000
Less: Amount of discount using single incremental borrowing rate as at January 1, 2019	47,587
<u>Lease liability as at January 1, 2019</u>	<u>₱152,413</u>

*PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation.*

The amendments provide additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

*PFRS 11 (Amendments), Joint Arrangements – Previously Held Interest in a Joint Operation.*

The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure its previously held interests.

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

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

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

The application of the above improvements will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

*PAS 28 (Amendments), Investments in Associates and Joint Ventures – 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 that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

*PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation.* This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition.

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

The above amendments will not have a significant impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments.* This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The interpretation has no significant impact on the Group's consolidated financial statements.

## **New Accounting Standards and Amendments to Existing Standards Effective Subsequent to January 1, 2019**

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

### *Annual Improvements to PFRS 2015-2017 Cycle*

The annual improvements addressed the following issues:

*PAS 1 (Amendments), Presentation of Financial Statements and PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

*PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation.* The amendments provide additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

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

*PFRS 17, Insurance Contracts.* The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

The new standard will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

### **Basis for Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries, which were all incorporated in the Philippines and are registered with the Philippine SEC, as at December 31 of each year.

### **Determination of Fair Value and Fair Value Hierarchy**

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Group determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 27 to the consolidated financial statements.

### **“Day 1” Difference**

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

### **Financial Instruments**

#### *Initial Recognition, Measurement and Classification*

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

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

The Group classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

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

The Group classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

#### *Financial Assets at Amortized Cost*

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

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

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

As at December 31, 2019 and 2018, included under financial assets at amortized cost are the Group's cash, trade and other receivables, installment contract receivables and advances to related parties (see Notes 4, 5, 18 and 21).

#### *Cash*

The Group's cash includes cash on hand and in banks. Cash in banks earn interest at respective bank deposit rates.

#### *Trade and other receivables*

Receivables consist of advances to third parties, trade receivable, rental receivable and utilities receivable.

#### *Instalment contract receivables*

Represent outstanding balance of total contract price from the sale of land with ALC.

#### *Advances to related parties*

Represent non-interest bearing cash advances to related parties for working capital requirements.

#### *Equity Instruments Designated at FVOCI*

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

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at December 31, 2019 and 2018, the Group elected to classify irrevocably its unquoted equity investments under this category (see Note 7).

#### *Financial Liabilities at Amortized Cost*

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

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

As at December 31, 2019 and 2018, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, advances from related parties, lease liability and advances from lessees (see Notes 11, 18 and 20).

#### *Accounts payable and other liabilities*

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other current liabilities include non-trade payables and accrued expenses.

#### *Advances from related parties*

Represents cash advances to related parties for working capital requirements.

#### *Advances from lessees*

Represent payment of advance rental which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period.

#### *Lease liability*

Lease liability represents the Group's obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value is effectively treated as a financial liability which is measured at amortized cost, using the rate of interest implicit in the lease as the effective interest rate.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **Derecognition of Financial Instruments**

#### *Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

#### **Impairment of Financial Assets**

The Group recognizes an allowance for ECL for all debt instruments that are measured at amortized cost or at FVOCI. ECL are a probability-weighted estimate of credit losses over the expected life of the financial asset.

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

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

For trade and other receivables and advances to related parties, the Group applies a simplified approach in calculating ECL. The Group recognizes a loss using the management's adopted policy on ECL at the end of each reporting period. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

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

The Group recognizes impairment loss (reversals) in statements of comprehensive income for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statements of financial position.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are one (1) day past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of „investment grade“ in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of „performing“. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

#### *Definition of default*

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

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

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than one (1) year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

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

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

*Write-off policy*

The Group writes-off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables and contract assets, when the amounts are over five (5) years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in consolidated statements of comprehensive income.

**Prepayments and Other Current Assets**

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized at cost and subsequently measured at cost less any utilized portion and impairment loss. This account comprises prepaid items which are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

Prepayments are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

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

*Input value-added tax (VAT) and Other Prepaid Taxes*

Input VAT is the indirect tax paid by the Group on the local purchase of goods or services from a VAT-registered person. Creditable withholding tax pertains to taxes withheld by the customers upon payment and is to be deducted from income tax payable of the Group.

The Group's input tax and other prepaid taxes are stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax other prepaid taxes, if any, are maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claims. The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment loss.

**Property and Equipment**

Property and equipment are tangible assets that are held for use supply of services, for rental to others, or for administrative purposes, and are expected to be used during more than one (1) period.

Property and equipment are initially measured at cost. The cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location of its intended use.

Subsequent to initial recognition, property and equipment are carried at cost less accumulated depreciation and any impairment in value.

Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred.

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

	In Years
Buildings and improvements	5 to 50
Machinery and equipment	4 to 32
Transportation equipment and tools	5 to 10
Furniture and fixtures	3 to 10
Right-of-use asset	2

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

### **Investment Properties**

Investment properties are for rental and capital appreciation, and not occupied by the Group.

Investment properties are measured initially at cost, including transaction costs. Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred. Subsequent to initial recognition, investment properties (except land) are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	In Years
Land improvements	5
Buildings and improvements	50

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

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation and commencement of an operating lease to another party. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

### **Interest in Joint Operation**

The Group has entered into joint operations for the development of properties.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the PFRS applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

### **Impairment of Non-financial Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increase to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are measured (initial and subsequent) at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

#### *Capital stock*

Capital stock represents the par value of the shares that are issued and outstanding as of reporting date.

#### *Additional paid-in Capital*

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

#### *Treasury shares*

Treasury shares are own equity instruments which are reacquired and are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Treasury shares represent capital stock of the Parent Company that is owned by its subsidiary.

#### *Deficit*

Deficit includes all current and prior period results of operation as disclosed in the consolidated statements of comprehensive income.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided in the normal course of business.

#### *Rental income*

Rental from investment properties that is leased to a third party under an operating lease is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Rental received in advance is treated as advances from lessees and recognized as income when actually earned.

#### *Interest income*

Interest income is accrued on a time proportion basis, by reference to the principal amount outstanding and at the effective interest rate applicable.

#### *Other income*

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably.

### **Expense Recognition**

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

#### *Direct cost and expenses*

Direct cost and expenses are recognized as expense when the related services are rendered.

#### *Operating expenses*

Operating expenses constitute costs of operating and administering the business and are expensed as incurred.

### **Income Tax**

The tax expense for the period comprises current tax only. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carrying forward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carrying forward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

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

## **Leases**

The Group accounts for its leases as follows:

### *Group as Lessee*

#### *Leases under PAS 17 in 2018*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease.

Lease expense from operating lease is recognized in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance, taxes, insurance, and others are expensed as incurred.

#### *Upon adoption of PFRS 16 in 2019*

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

The Group has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

#### *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating lease is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group is a party to operating leases as a lessor. Rentals received under operating leases are charged to consolidated statements of comprehensive income (net of any incentives).

### **Related Party Relationships and Transactions**

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

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

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

### **Retirement Benefits Obligation**

The Group has no formal retirement plan for its employees as it does not meet the minimum number of employees required for the establishment of a retirement benefit plan, but accrues the estimated cost of retirement benefits required by the provisions of Republic Act (RA) No. 7641 (Retirement Law). Under RA 7641, the Group is required to provide minimum retirement benefits to qualified employees. The retirement cost accrued includes current service cost and estimated past service cost as determined under RA 7641.

### **Segment Reporting**

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

Operating segments are reported on the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 19.

### **Loss Per Share**

Loss per share are determined by dividing net loss for the year by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Group and held as treasury shares.

### **Provisions and Contingencies**

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

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

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

### **Events After the Reporting Date**

The Group identifies post-year events as events that occurred after the reporting date but before the date when the Group's consolidated financial statements were authorized for issue. Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the Group consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the Group consolidated financial statements when material.

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

The preparation of the Group's consolidated financial statements requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements. These judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group believes the following represent a summary of these significant judgments and estimate and related impact and associated risks in the consolidated financial statements.

### **Significant Accounting Judgments in Applying the Group's Accounting**

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

#### *Operating lease commitments*

##### *Group as lessee*

The Group has entered into contract of lease for its office space it occupies. In 2018, the Group has determined that all significant risks and benefits of ownership on this property will be retained by the lessor. Thus, the lease was accounted for as operating lease. In 2019, upon adoption of PFRS 16, Leases, the Group determines the contract if there is a substance of lease. In determining the substance of the lease, the Group considered, among others, whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Based on management judgment, the Group's lease for its office space has substance of lease, thus, the Group recognized right-of-use asset representing the right to use the leased asset and lease liability representing its obligation to make lease payments.

##### *Group as lessor*

The Group has entered into property leases on its buildings classified as investment properties. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets. The Group's operating lease contracts are accounted for as non-cancellable operating leases. In determining whether a lease contract is non-cancellable, the Group considers the provisions in the lease contract which among others, the payment of rental corresponding to the unexpired portion of the lease period. The Group accounts the lease of its buildings under operating lease in accordance with the provision of lease contract and terms of the lease.

#### *Distinction between investment properties and interest in joint operation*

The Group determines whether a property contributed to joint venture operations will be classified as investment properties or investment in joint venture. In making this judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group or whether it will be retained as part of the Group's asset and treated as the Group's share in the joint venture, based on the provisions governing the joint venture agreement. The Group considers land contributed to the joint venture as its investment. The Group, in the normal course of business does not hold the property to earn rentals or for capital appreciation; accordingly land invested in the joint venture is classified as interest in joint operation (see Note 9).

#### *Realizability of input VAT*

The Group reviews and assesses its input VAT for its recoverability. Factors which primarily affect the recoverability include the completeness of the supporting documentation, entitlement to claim VAT paid as input tax credit against output tax liabilities and future taxable revenue. As at December 31, 2019 and 2018, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱3,220,953 and ₱2,814,123 as at December 31, 2019 and 2018, respectively (see Note 6).

*Operating segments*

The Group is organized and managed separately according to the nature of business. The Group reports its segment information according to its activities. Reportable segment operation pertains to the Group's leasing activity, while the non-reportable segment operation pertains to manufacturing operation, and mining and oil exploration (see Note 19).

*Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

**Significant Accounting Estimates and Assumptions**

*Determination of ECL on trade and other receivables, and advances to related parties*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 25.

The carrying amount of the Group's trade and other receivables amounted to ₱43,699,592 and ₱62,063,470 at December 31, 2019 and 2018, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱90,670,276 and ₱71,729,232 as at December 31, 2019 and 2018 (see Note 5).

The carrying amount of the Group's advances to related parties amounted to ₱30,401,785 and ₱48,379,762 at December 31, 2019 and 2018, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱135,461,783 and ₱121,182,068 as at December 31, 2019 and 2018 (see Note 18).

*Useful lives of property and equipment, and investment properties*

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

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the investment property would increase recorded operating expenses and decrease noncurrent assets.

The net carrying values of the Group's investment properties (except land) and property and equipment as at December 31 are as follows:

	<b>2019</b>	2018
Investment properties - note 8	<b>₱ 55,021,439</b>	₱ 57,593,002
Property and equipment - note 10	<b>1,873,304</b>	7,676,990
	<b>₱ 56,894,743</b>	₱ 65,269,992

*Impairment of non-financial assets*

Non-financial assets are periodically reviewed to determine any indication of impairment. Though management believes that the assumptions used in the estimation of fair values are reasonable and appropriate, significant changes in these assumptions may materially affect the assessment of the recoverable amounts and any resulting impairment loss could have a material adverse effect in the results of operations.

The accumulated impairment losses on investment properties, investment in joint venture, and property and equipment amounted to ₱237,408,239, ₱47,641,000, and ₱80,120,199, respectively, as at December 31, 2019 and 2018 (see Notes 8, 9 and 10).

*Retirement benefits obligation*

The determination of the Group's obligation and cost of pension benefits is dependent on certain assumptions used by management in calculating such amounts. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation. In estimating the Group's retirement benefit obligation, the Group used the minimum required retirement payment of 22 ½ days for every year of service as mandated by RA 7641. The Group also considers the employees current salary rate and the employees' number of service years.

Retirement benefits obligation as at December 31, 2019 and 2018, amounted to ₱708,900 and ₱667,200, respectively (see Note 16). The Group believes that the retirement benefits obligation and retirement expense would not materially differ had the Group used projected unit credit method for the computation of retirement benefits because of minimal number of employees.

*Deferred tax assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The recognition of deferred tax assets is based on the assessment that the Group will generate sufficient taxable profit to allow all or part of the deferred tax assets will be utilized.

The Group looks at its projected performance in assessing the sufficiency and timing of future taxable income. Based on management assessment, the Group would not be able to realize the deferred tax assets in the near future. As at December 31, 2019 and 2018, the Group's unrecognized deferred tax assets amounted to ₱189,954,780 and ₱181,646,957, respectively, is disclosed in Note 17.

#### 4. CASH

Cash as at December 31 are as follows:

	2019	2018
Cash on hand	₱ 20,000	₱ 20,000
Cash in banks	11,694,706	12,593,158
	<b>₱11,714,706</b>	<b>₱ 12,613,158</b>

Cash in banks earns interest at the respective bank deposit rates ranging from 0.16% to 0.24% per annum in 2019 and 2018. Interest income earned from deposit amounted to ₱13,257, ₱5,071, and ₱6,071 in 2019, 2018, and 2017 respectively (see Note 15).

There is no restriction on the Group's cash in banks as at December 31, 2019 and 2018.

#### 5. TRADE AND OTHER RECEIVABLES (net)

Trade and other receivables (net) as at December 31 are as follows:

	2019	2018
Trade receivable – note 18	₱ 11,215,841	₱ 11,215,841
Advances to third parties	118,246,098	118,011,681
Rental receivable – note 20	4,391,109	3,963,978
Utilities receivable	399,673	515,325
Others	117,147	85,877
	<b>134,369,868</b>	<b>133,792,702</b>
Allowance for ECL	<b>(90,670,276)</b>	<b>(71,729,232)</b>
	<b>₱ 43,699,592</b>	<b>₱ 62,063,470</b>

Certain trade receivables were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (see Note 25).

The movement in the allowance for ECL is as follows:

	2019	2018
Balance at beginning of year	₱71,729,232	₱62,118,634
Provisions for ECL – note 15	18,941,044	9,610,598
At end of year	<b>₱90,670,276</b>	<b>₱71,729,232</b>

Advances to third parties represent receivable from previously disposed subsidiaries.

Other receivables include advances to employees and reimbursable expenses from PCIC subsidiaries' tenants.

The Group's trade and other receivables as at December 31, 2019 and 2018 are not held as collateral for its liabilities and are free from any encumbrances.

## 6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at December 31 are as follows:

	2019	2018
Creditable withholding tax	₱ 10,791,416	₱ 10,430,228
Input VAT	3,220,953	2,814,123
Prepaid expense	160,046	160,046
	<b>₱ 14,172,415</b>	<b>₱ 13,404,397</b>

As at December 31, 2019 and 2018, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

## 7. FINANCIAL ASSET AT FVOCI

The Group's financial asset at FVOCI consists of investment in unquoted shares of stock amounting to ₱12,500,000 represents ownership in Bulacan Harbour Dev't. Corp. This investment is irrevocably designated at FVOCI as the Group considers this investment to be strategic in nature and it holds this investment to foreseeable future.

The Group's financial assets at FVOCI as at December 31, 2019 and 2018 are not held as collateral for its financial liabilities.

## 8. INVESTMENT PROPERTIES (net)

Details of investment properties as at December 31 are as follows:

December 31, 2019	Land	Land improvements	Buildings and improvements	Total
<b>Cost</b>				
At beginning and year	₱ 980,176,630	₱ 3,290,824	₱ 312,179,250	₱ 1,295,646,704
Additions	64,216,267	-	-	64,216,267
At end of year	1,044,392,897	3,290,824	312,179,250	1,359,862,971
<b>Accumulated depreciation</b>				
At beginning of year	-	3,290,824	77,988,659	81,279,483
Depreciation – note 13	-	-	2,571,563	2,571,563
At end of year	-	3,290,824	80,560,222	83,851,046
<b>Accumulated impairment loss</b>				
At beginning and end of year	60,810,650	-	176,597,589	237,408,239
<b>Net carrying amounts,</b>				
<b>December 31, 2019</b>	<b>₱ 983,582,247</b>	<b>₱ -</b>	<b>₱ 55,021,439</b>	<b>₱ 1,038,603,686</b>

December 31, 2018	Land	Land improvements	Buildings and improvements	Total
<b>Cost</b>				
At beginning and year	₱80,176,630	₱ 3,290,824	₱ 312,179,250	₱1,295,646,704
Additions	22,552,679	–	–	22,552,679
Transfer from interest in joint operation – note 9	19,656,742	–	–	19,656,742
Disposals	(42,209,421)	–	–	(42,209,421)
At end of year	₱80,176,630	₱ 3,290,824	₱ 312,179,250	₱1,295,646,704
<b>Accumulated depreciation</b>				
At beginning of year	–	3,290,824	75,417,096	78,707,920
Depreciation – note 13	–	–	2,571,563	2,571,563
At end of year	–	3,290,824	77,988,659	81,279,483
<b>Accumulated impairment loss</b>				
At beginning and end of year	60,810,650	–	176,597,589	237,408,239
Net carrying amounts, December 31, 2018	₱919,365,980	₱ –	₱ 57,593,002	₱ 976,958,982

Rental income earned on the above investment properties amounted to ₱29.53 million, ₱22.86 million, and ₱17.49 million for the years ended December 31, 2019, 2018, and 2017, respectively (see Note 20). While direct costs and expenses incurred on the buildings amounted to ₱14 million, ₱13.27 million, and ₱11 million in 2019, 2018, and 2017 respectively, shown under “Direct costs and expenses” in the statements of comprehensive income (see Note 13).

In 2018, the Group sold parcels of land with total carrying amount of ₱42,209,421 for a total consideration of ₱46,800,000 which resulted to a total gain of ₱4,590,579 (see Note 15).

The carrying amount of the buildings being leased out is ₱23,703,655 and ₱25,029,039 as at December 31, 2019 and 2018, respectively (see Note 20).

The latest appraisal on the Group’s land, and building and improvements was on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. The fair value information of investment properties is disclosed in Note 27.

The Group’s land with aggregate carrying amount of ₱651,901,500 is subject properties under the MOA with ALC as disclosed in Note 21. On November 29, 2019, the Group had agreed to cancel, terminate and rescind the MOA. Upon return of the title and refund of down payment, the Group recognized the cost of the land amounting to ₱64,216,267 (see Note 21).

Land with an aggregate carrying amount of ₱381,136,506 as at December 31, 2018, were mortgaged with PNB to secure the loans obtained by related parties which were already settled during 2018 (see Notes 1 and 18).

Land with aggregate amount ₱6,484,935 as at December 31, 2019 and 2018 was under litigation (see Note 23).

Except from restrictions described above, there are no other restrictions on the realizability of its investment properties and no other contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Fully depreciated investment properties still in use as at December 31, 2019 and 2018 amounted to ₱3,290,824.

**9. INTEREST IN JOINT OPERATION (net)**

The Group's interest in joint operation represents land contributed to the Joint Operation.

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp. (PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as Owners with Philippine Estates Corporation (PHES), as Developer. Under the Agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City, whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) of shall constitute the owners share, divided proportionately to the areas of property contributed.

The carrying amount of land held for joint operation is as follows:

	2019	2018
<b>Cost</b>		
Balance at beginning of year	₱570,557,369	₱590,214,111
Transfer to investment property – note 8	–	(19,656,742)
	<b>₱570,557,369</b>	<b>₱570,557,369</b>
<b>Accumulated impairment loss</b>		
At beginning and end of year	47,641,000	47,641,000
<b>Net carrying amounts, December 31</b>	<b>₱522,916,369</b>	<b>₱522,916,369</b>

The Group's land is carried at cost, less accumulated impairment loss. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at December 31, 2019 and 2018, outstanding receivable from PHES amounted to ₱10,897,335 which pertain to the Group's share in the sale of lot net of expenses (see Note 18).

No liabilities, revenue and expenses recognized in relation to the joint venture in 2019 and 2018.

**10. PROPERTY AND EQUIPMENT (net)**

The reconciliation of property and equipment (net) as at December 31 as follows:

	Building and Improvements	Machinery and Equipment	Transportation Equipment and Tools	Furniture and Fixtures	Right-of-use asset	Total
<b>Cost</b>						
At beginning and end of year	₱ 800,000	₱547,522,657	₱8,203,282	₱8,828,122	₱ 216,701	₱ 565,570,762
<b>Accumulated depreciation</b>						
At beginning of year	₱ 800,000	₱459,725,468	₱8,203,282	₱8,828,122	₱ 72,234	₱ 477,629,106
Depreciation – note 14	–	5,839,803	–	–	108,350	5,948,153
Balance at end of year	800,000	465,565,271	8,203,282	8,828,122	180,584	483,577,259
<b>Impairment loss</b>						
At beginning and end of year	₱ –	₱ 80,120,199	₱ –	₱ –	₱ –	₱ 80,120,199
<b>Net carrying amounts, December 31, 2019</b>	<b>₱ –</b>	<b>₱ 1,837,187</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱ 36,117</b>	<b>₱ 1,873,304</b>

	Building and Improvements	Machinery and Equipment	Transportation Equipment And Tools	Furniture and Fixtures	Total
Cost					
At beginning and end of year	₱ 800,000	₱547,522,657	₱8,203,282	₱8,828,122	₱565,354,061
Accumulated depreciation					
At beginning of year	₱ 800,000	₱452,216,759	₱8,203,282	₱8,823,042	₱470,043,083
Depreciation – note 14	–	7,508,709	–	5,080	7,513,789
Balance at end of year	800,000	₱459,725,468	8,203,282	8,828,122	477,556,872
Impairment loss					
At beginning and end of year	₱ –	₱ 80,120,199	₱ –	₱ –	₱ 80,120,199
Net carrying amounts, December 31, 2018	₱ –	₱ 7,676,990	₱ –	₱ –	₱ 7,676,990

Total depreciation charged to operation amounted to ₱5,948,153, ₱7,513,789, and ₱13,181,718 in 2019, 2018, and 2017 respectively (see Note 14).

The Group entered into a chattel mortgage agreement with local bank for the purchase of transportation equipment payable in three (3) years until 2017. Transportation equipment was used as collateral to secure payment of borrowings. The loan was fully paid in 2017. Finance cost paid for the year ended December 31, 2017 amounted to ₱7,505.

Fully depreciated property and equipment still in use as at December 31, 2019 and 2018 amounted to ₱17,831,400.

The Group has no other contractual commitment to acquire property and equipment as at December 31, 2019 and 2018.

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at December 31 are as follows:

	2019	2018
Accounts payable	₱1,874,502	₱ 2,414,330
Deferred rental – note 20	2,521,618	1,917,984
Government liabilities	762,746	9,448,380
	<b>₱5,158,866</b>	<b>₱ 13,780,694</b>

Accounts payable pertains to the amount due to suppliers payable from thirty (30) to ninety (90) days from the date of sale and do not bear any interest.

Deferred rental represents advance rental paid by the lessees.

Government liabilities pertain to VAT payable and tax withheld from payment to suppliers, employee's compensation, and statutory contributions to SSS, PHIC and HDMF.

There were no assets of the Group that were collateralized for the above accounts payable and other liabilities as at December 31, 2019 and 2018.

## 12. CAPITAL STOCK

Details of the Parent Company's capital stock as at December 31 are as follows:

	2019	2018	2017
Authorized – 3,500,000,000 shares at ₱1 par value per share	<b>₱ 3,500,000,000</b>	₱ 3,500,000,000	₱ 3,500,000,000
Issued and fully paid – 3,276,045,637 shares at ₱1 par value per share	<b>₱ 3,276,045,637</b>	₱ 3,276,045,637	₱ 3,276,045,637
Treasury stock – 10,000 shares	<b>( 10,000)</b>	( 10,000)	( 10,000)
	<b>₱ 3,276,035,637</b>	₱ 3,276,035,637	₱ 3,276,035,637

### *Track record of registration of securities*

The Parent Company was originally registered as REDECO with the SEC on October 19, 1956. The Parent Company was listed with the PSE on January 9, 1958 with an initial registered 200,000,000 shares.

On May 25, 1995, the BOD and stockholders approved a reverse stock split and a subsequent increase in the authorized capital stock in line with its recapitalization program. Accordingly, on November 15, 1995, the Parent Company filed with the SEC a motion to effect a 1-for-5 reverse stock split which decreased its authorized capital from ₱75 million divided into 75 million shares to ₱15 million divided into 15 million shares, both with a par value of ₱1 per share. It was approved by the SEC on January 15, 1996. This was also done in order to recall all outstanding stock certificates and be able to account for the over-issuance of shares which management has decided to be absorbed by the Parent Company.

On January 8, 1996, the Parent Company filed with the SEC a motion to increase its authorized capital stock from ₱15 million divided into 15 million shares to ₱1 billion divided into 1 billion shares with a par value of ₱1. The increase was approved by the SEC on May 16, 1996. Subscriptions to the increase in authorized capital stock were made through stocks-for-assets swap. On September 2, 1996, the BOD and the stockholders approved a resolution to amend the Parent Company's Articles of Incorporation changing the par value per share of its capital stock from ₱0.01 to ₱1.00, removing the pre-emptive rights of shareholders and increasing the authorized capital stock from ₱500 million divided by 50 billion shares with a par value of ₱0.01 per share to ₱2.0 billion divided into 2.0 billion shares with a par value of ₱1.00 per share. The proposed amendments were approved by the SEC on September 27, 1996.

Relative to the approval of the proposed amendment, any part of such stock or other securities may, at any time, be issued, optioned for sale and sold or disposed of by the Parent Company pursuant to resolution of the BOD, to such persons and upon such terms as the BOD may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.

On August 22, 1997, the BOD and the stockholders approved a further increase in the Parent Company's authorized capital stock from ₱2.0 billion to ₱3.5 billion divided into 3.5 billion shares with a par value of ₱1.00 per share. On March 11, 1998, the SEC approved the increase in the Parent Company's authorized capital stock.

As at December 31, 2019, 2018 and 2017, the Parent Company has outstanding 3,271,938,180 shares under its name. Remaining unconverted shares under REDECO as at December 31, 2019, 2018 and 2017 is 4,107,457. Outstanding shares owned by the public are 1,413,467,270 in 2019 and 2018, and 1,413,523,748 in 2017.

The historical market values of the Group's shares as published in the PSE are as follows:

	Market value per share
<b>December 31, 2019</b>	<b>₱ 0.20</b>
December 31, 2018	0.25
December 31, 2017	0.19

*Treasury shares*

Treasury shares represent 29,486,633 Parent Company's shares of stock acquired by RIC, a wholly owned subsidiary of PCIC, in prior years. In 2007 and 2009, RIC sold 13,000,000 and 16,476,633 shares of the Parent Company to a third party.

**13. DIRECT COSTS AND EXPENSES**

Direct costs and expenses for the years ended December 31 are as follows:

	2019	2018	2017
Property taxes	₱ 5,508,882	₱ 4,279,006	₱ 5,293,030
Security services	4,204,848	3,660,347	3,660,347
Depreciation - note 8	2,571,563	2,571,563	1,577,974
Repairs and maintenance	1,325,512	2,535,268	458,450
Insurance	392,511	224,064	11,778
	<b>₱ 14,003,316</b>	<b>₱ 13,270,248</b>	<b>₱ 11,001,579</b>

**14. OPERATING EXPENSES**

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

	2019	2018	2017
Depreciation - note 10	₱ 5,948,153	₱ 7,513,789	₱ 13,181,718
Salaries and wages	3,282,468	2,285,107	2,081,347
Taxes and licenses	2,558,419	1,327,069	1,724,078
Professional fees	2,266,210	2,427,000	2,341,000
Communication, light and power	1,660,142	1,102,245	899,943
Commission	1,359,439	829,551	515,625
Security service	560,646	488,046	488,385
Listing and maintenance fee	501,965	338,461	666,335
SSS, Medicare and EC contributions	244,141	147,497	116,048
Transportation and travel	71,182	58,012	60,153
Office supplies	9,798	5,911	13,647
Rent – note 18	–	150,000	150,000
Miscellaneous	912,007	642,393	770,038
	<b>₱ 19,374,570</b>	<b>₱ 17,315,081</b>	<b>₱ 23,008,317</b>

**15. OTHER INCOME (LOSS) - net**

Other income (loss) for the years ended December 31 is as follows:

	2019	2018	2017
Interest income – note 4	₱ 13,257	₱ 5,071	₱ 6,071
Gain on sale of investment properties – note 8	–	4,590,579	–
Miscellaneous income	334,035	321,429	321,429
Provision for ECL:			
Trade and other receivables – note 5	( 18,941,044)	( 9,610,598)	–
Advances to related parties – note 18	( 14,279,715)	( 7,563,687)	–
Other charges	( 2,013,916)	( 150)	( 145)
	<b>(₱ 34,887,383)</b>	<b>(₱12,257,356)</b>	<b>₱ 327,355</b>

In 2019, other charges mainly consist of penalties, surcharges and bank charges.

**16. RETIREMENT BENEFITS OBLIGATION**

The Group adopted RA No. 7641 as its arrangement to provide retirement benefits to all its regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

The movements in the defined benefit obligation recognized and presented as accrued retirement benefit obligation in the consolidated statements of financial position are as follows:

	2019	2018	2017
Balance at beginning of year	₱ 667,200	₱ 625,500	₱ 583,800
Provision for retirement	41,700	41,700	41,700
Balance at end of year	<b>₱708,900</b>	<b>₱ 667,200</b>	<b>₱ 625,500</b>

The provision for retirement benefits in 2019, 2018, and 2017 were included under salaries, wages and employees benefit in the consolidated statements of comprehensive income. Management believes that the defined benefit obligation computed using the provisions of R.A. 7641 is not materially different with the amount computed using the projected unit credit method as required under PAS 19, Employee Benefits.

## 17. INCOME TAX

### Reconciliation of tax expense

The reconciliation of loss before tax is computed at the regular corporate tax rate to the provision for income tax as shown in the statements of comprehensive income as follows:

	2019	2018	2017
Loss before tax	<b>(P39,288,722)</b>	(P20,536,506)	(P 17,306,085)
Tax benefit at 30%	<b>(P11,786,617)</b>	(P 6,160,952)	(P 5,191,825)
Tax effect on:			
Non-deductible expenses	<b>634,460</b>	118,458	169,510
Non-deductible portion of interest expense	<b>348</b>	126	339
Interest income	<b>(3,978)</b>	(1,521)	(1,820)
NOLCO	<b>5,513,834</b>	3,652,988	3,188,494
Expired MCIT	<b>4,215</b>	105,005	515,910
Changes in unrecognized deferred tax assets	<b>8,307,823</b>	4,104,066	2,082,579
	<b>P 2,670,085</b>	P 1,818,170	P 763,187

The component of the Group's deferred tax assets (liab as at December 31 are as follows:

	2019	2018
<b>Deferred tax assets</b>		
NOLCO	<b>P 12,055,397</b>	P 13,845,889
Allowance for:		
ECL	<b>67,839,618</b>	57,873,390
Impairment loss on properties	<b>109,550,831</b>	109,550,831
Accrued retirement benefits	<b>212,670</b>	200,160
MCIT	<b>296,264</b>	176,687
Lease liability	<b>12,027</b>	–
Total	<b>P189,966,807</b>	P181,646,957
Unrecognized deferred tax assets	<b>(189,954,780)</b>	( 181,646,957)
	<b>P 12,027</b>	P –
<b>Deferred tax liability</b>		
Right-of-use asset (net)	<b>(P 10,835)</b>	P –

As at December 31, 2019, the Group's NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiration Date	Beginning balance	Additions	Expired	Claimed	Ending balance
2019	2022	P –	P 12,411,139	P –	P –	<b>P 12,411,139</b>
2018	2021	11,045,641	–	–	–	<b>11,045,641</b>
2017	2020	16,727,875	–	–	–	<b>16,727,875</b>
2016	2019	18,379,447	–	(18,379,447)	–	–
		<b>P46,152,963</b>	<b>P12,411,139</b>	<b>(P18,379,447)</b>	<b>P –</b>	<b>P40,184,655</b>

As at December 31, 2019, the Group's MCIT that can be claimed as deduction from future income tax payable as follows:

Year Incurred	Expiration Date	Beginning balance	Additions	Expired	Claimed	Ending balance
2019	2022	₱ -	₱ 156,581	₱ -	₱ -	₱ 156,581
2018	2021	70,384	-	-	-	70,384
2017	2020	69,299	-	-	-	69,299
2016	2019	37,004	-	( 4,215)	( 32,789)	-
		<b>₱ 176,687</b>	<b>₱ 156,580</b>	<b>(₱ 4,215)</b>	<b>(₱ 32,789)</b>	<b>₱ 296,264</b>

The Group did not recognize its deferred tax assets pertaining to NOLCO and MCIT as at December 31, 2019 and 2018 since the management believes that the related tax benefits will not be realized within the availment period.

Deferred tax assets are determined using the income tax rates in the period the temporary differences are expected to be recovered and settled.

## 18. RELATED PARTY TRANSACTIONS

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

Category	Amount/Volume		Trade Receivables (Note 5)		Terms and condition
	2019	2018	2019	2018	
<b>Receivable from related parties with common key management</b>					
PHES	₱ -	₱ -	₱ 10,897,335	₱ 10,897,335	(a)
Genwire Manufacturing Corp. (GMC)	-	-	318,506	318,506	(b)
	<b>₱ -</b>	<b>₱ -</b>	<b>₱ 11,215,841</b>	<b>₱ 11,215,841</b>	

Category	Amount/Volume		Advances to related parties		Terms and condition
	2019	2018	2019	2018	
<b>Advances to related parties with common key management</b>					
Polymax Worldwide Limited (PWL)	₱ -	₱ -	₱105,060,000	₱105,060,000	(c)
TWGI					
Cash advances	( 3,698,761)	( 3,385,893)	57,170,105	60,868,866	(c)
Consultancy fee	-	( 480,000)	-	-	(c)
Rental and utilities	-	( 247,815)	-	-	(c)
Concept Moulding Corp. (CMC)	499	( 769,849)	3,633,463	3,632,964	(c)
	<b>( 3,698,262)</b>	<b>( 4,883,557)</b>	<b>165,863,568</b>	<b>169,561,830</b>	
Allowance for ECL	<b>( 14,279,715)</b>	-	<b>(135,461,783)</b>	<b>( 121,182,068)</b>	
	<b>(₱17,977,977)</b>	<b>(₱4,883,557)</b>	<b>₱ 30,401,785</b>	<b>₱48,379,762</b>	

Category	Amount/Volume		Advances from related parties		Terms and conditions
	2019	2018	2019	2018	
<b>Advances from related parties with common key management</b>					
Diamond Stainless Corp. (DSC)	₱ 23,249,870	(₱13,988,213)	₱ 142,107,880	₱ 118,858,010	(d)
PCC	( 3,347,452)	( 1,568,518)	82,000,134	85,347,586	(d)
IPC	4,660	( 498,387)	24,161,573	24,156,913	(d)
PHES	553,917	542,130	31,019,308	30,465,391	(e)
KIC	-	-	23,539,858	23,539,858	(d)
Rexlon Realty Corp. (RRC)	( 23,187,370)	-	-	23,187,370	(d)
PRC	-	-	15,540,753	15,540,753	(d)
Ropeman Int'l Corp.	-	-	3,202,528	3,202,528	(d)
Philianson Land Corporation	( 718,211)	718,211	-	718,211	(d)
Polymaster Industrial Corporation	( 196,042)	196,042	-	196,042	(d)
The Wellex Group, Inc.	13,722,810	-	13,722,810	-	(c)
	<b>10,082,182</b>	<b>(14,598,735)</b>	<b>335,294,844</b>	<b>325,212,662</b>	
<b>Advances from stockholders/key management</b>					
Key management and officers	-	-	158,118,794	158,118,794	(f)
	<b>₱10,082,182</b>	<b>(₱ 14,598,735)</b>	<b>₱493,413,638</b>	<b>₱483,331,456</b>	

(a) *Receivable from venturer*

The Group has outstanding receivable from PHES pertaining to the Group's share in the proceeds of the lot sold in 2015 held as interest in joint venture (see Note 9). This receivable is unsecured, unguaranteed and to be settled in cash.

(b) *Receivable from related parties with common key management*

The Group pays operating expenses on behalf of GMC. These receivables are normally collected the following year, unsecured, non-interest bearing and with no guarantee and to be settled in cash. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

(c) *Advances to related parties with common key management*

*PWL*

On November 24, 2009, Philippine Veterans Bank foreclosed land to secure payment of loan of an affiliate amounting to ₱88.8 million by virtue of the real estate mortgage, executed by the Group. The property was sold at an auction to the highest bidder Philippine Veterans Bank which tendered an amount of ₱71.326 million.

The Group recognized advances to PWL of ₱105.06 million for the value of the land foreclosed to settle the affiliate loan with the bank.

The advances are unsecured, with no definite terms of repayment and with no guarantee and to be settled in cash.

*TWGI*

The Group provided non-interest bearing, unsecured and unguaranteed advances to TWGI. To settle the outstanding advances, the Group entered into the following contracts with TWGI, which in return, amounts incurred will be applied to the outstanding advances:

- The Group entered into a Consultancy Agreement with TWGI from May 1, 2016 to April 30, 2018. The contract has been renewed twice since then and is currently valid until April 30, 2022. Total consultancy fees incurred for the years ended December 31, 2019, 2018 and 2017, amounted to ₱480,000, shown under „Professional fees“ account in the consolidated statements of comprehensive income.
- Lease Agreement for the Group’s office space for a monthly rental of ₱20,000, utilities of ₱5,000, and storage fee of ₱1,000 from May 1, 2016 to April 30, 2018. The Agreement was renewed for another two (2) years starting May 1, 2018 to April 30, 2020. Total rent expense and utilities amounted to ₱150,000 and ₱72,000, respectively, for the years ended December 31, 2019 and 2018. The Group adopted PFRS 16 for the first time. The Group recognized the asset as „right-of-use asset“ and corresponding lease liability.

The present value of the lease liability as at December 31, 2019 is as follows:

Current	<b>₱ 40,090</b>
Noncurrent	–
	<b>₱ 40,090</b>

The future minimum lease payments as at December 31, 2019 are as follows:

Not later than one year	<b>₱ 50,000</b>
Later than one year but not later than five years	–
Future minimum lease payments	<b>50,000</b>
Amounts representing finance charges	<b>( 9,910)</b>
	<b>₱ 40,090</b>

The net carrying amount of the right-of-use assets recognized as at December 31, 2019 is disclosed in Note 10.

Total finance costs charged to operations for the year ended December 31, 2019 amounted to ₱37,677.

*CMC*

The Group provided non-interest bearing and unguaranteed advances to CMC for working capital requirements. The advances are unsecured, with no definite terms of repayment and with no guarantee.

Certain advances to related parties were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (see Note 25).

The movement in the allowance for ECL is as follows:

	2019	2018
Balance at beginning of year	<b>₱121,182,068</b>	₱113,618,381
Provisions for ECL – note 15	<b>14,279,715</b>	7,563,687
At end of year	<b>₱135,461,783</b>	₱121,182,068

*(d) Advances from related parties*

In prior years, the Group obtained unguaranteed and non-interest bearing cash advances from related parties intended to finance its operating expenses, capital expenditures and payment of outstanding obligations. The Group has not made any arrangement for the terms, security and guarantee on the advances as the subsidiaries has ceased its manufacturing operations. The advances are payable in cash upon settlement depending on the availability of funds. The Group, however, looks into the possibility of offsetting arrangements to settlement the obligation.

*(e) PHES*

In 2009, the Group and PHES executed unsecured promissory note (PN) for the advances from PHES with a term of five (5) years, and bear interest of three percent (3%) per annum, renewable upon agreement of the parties. This PN was renewed in 2014 with a three-year term which matured during the year with an interest of two percent (2%) per annum. This cash advance is to be settled through cash payments. On December 21, 2018, the PN was renewed for another three (3) years and will mature on 2021. Finance costs charged for the years ended December 31, 2019, 2018, and 2017 amounted to ₱553,916, ₱553,916, and ₱1,107,831, respectively.

*(f) Advances from key management*

The Group obtains non-interest bearing and unsecured advances from stockholders and key officers for working capital purposes. The advances have no guarantee and definite terms of repayment. Payment will depend on the availability of funds. These amounts are payable in cash upon settlement.

*(g) Collateral properties held by related parties*

The Group's investment properties with a carrying amount of ₱381.14 million as at December 31, 2019 and 2018, were used as collateral to secure loans obtained by related parties which were already settled during 2018 (see Note 8).

*(h) Remuneration of key management personnel.*

Directors' fees paid for the years ended December 31, 2019, 2018, and 2017 amounted to ₱20,000, ₱20,000, and ₱10,000, respectively.

With the cessation of the subsidiaries commercial operations in prior years and the Group is in tight cash position, management decided to suspend any form of compensation to key management and officers effective in 2004.

## 19. BUSINESS SEGMENT INFORMATION

### a) Segment information

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

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

The Group has only one (1) operating segment representing the Group's leasing activity on its idle properties as warehouses to third parties. Non-reportable segments represent the Parent Company's discontinued operations of the manufacturing operation and mining and oil exploration which is under development. The Parent Company does not earn revenue or may earn revenue that is only incidental to activities such as interest income.

The segment information on reportable segment is as follows:

	2019	2018	2017
Revenue of reportable segment	₱ 29,530,462	₱ 22,860,095	₱ 17,491,792
Other income	345,814	3,762	4,446
Depreciation	( 2,571,563)	( 2,571,563)	( 1,577,973)
Direct costs and expenses	( 8,938,860)	( 10,224,150)	( 8,954,541)
Operating expenses	( 16,351,775)	( 11,770,321)	( 15,848,591)
Finance cost	( 553,916)	( 553,916)	( 1,115,336)
Income tax	( 2,664,849)	( 1,719,930)	( 756,758)
<b>Segment net loss</b>	<b>(₱ 1,204,687)</b>	<b>(₱ 3,976,023)</b>	<b>(₱ 10,756,961)</b>
<b>Total segment assets</b>	<b>₱1,411,731,389</b>	<b>₱ 1,407,650,775</b>	<b>₱1,414,639,645</b>
<b>Expenditure for non-current assets</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱ –</b>
<b>Total segment liabilities</b>	<b>₱ 582,057,156</b>	<b>₱ 576,771,855</b>	<b>₱ 575,379,377</b>

As at December 31, 2019, 2018, and 2017, the Group has no intersegment revenue to be reported.

The following reconciliations were provided for additional segment information:

#### *Net loss*

	2019	2018	2017
Net loss of reportable segment	(₱ 1,204,687)	₱ 3,863,184	(₱ 11,226,064)
Loss of non-reportable segment	( 40,754,120)	( 26,217,860)	( 6,843,208)
<b>Net loss reported in the consolidated statements of comprehensive income</b>	<b>(₱41,958,807)</b>	<b>(₱ 22,354,676)</b>	<b>(₱18,069,272)</b>

*Assets*

	2019	2018
Assets of reportable segment	₱ 1,411,731,389	₱ 1,369,439,511
Assets of non-reportable segment	1,303,644,037	433,309,477
Intercompany receivables eliminated in the consolidation	( 1,039,300,698)	(88,738,120)
Assets reported in the consolidated statements of financial position	<b>₱ 1,676,074,728</b>	<b>₱ 1,714,010,868</b>

*Liabilities*

	2019	2018
Liabilities of reportable segment	₱582,057,156	₱ 576,771,855
Liabilities of non-reportable segment	209,859,002	205,179,375
Intercompany liabilities eliminated in the consolidation	( 286,390,844)	( 280,456,529)
Liabilities reported in the consolidated statements of financial position	<b>₱505,525,314</b>	<b>₱ 501,494,701</b>

b) Entity-wide information

The Group is domiciled in the Philippines. All revenues generated are from the Philippines. The revenue shown above represents the total Group's revenue from lease of real properties.

**20. LEASES**

The Group entered into lease contracts with various tenants for the rental of the Group's warehouse and building facilities. The lease term ranges from three (3) months to one (1) year and is renewable under such terms and conditions as the parties may agree, provided that at least ninety (90) days prior to the expiration of the lease period, the lessee shall inform the lessor in writing of his desire to renew the lease.

Lease contracts include payment of advance rental by the lessee which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period, less any corresponding obligation and damages. Outstanding advances from lessees amounted to ₱6,192,985 and ₱3,715,351 as at December 31, 2019 and 2018, respectively, as shown in the consolidated statements financial position. Deferred rental income relative to the lease amounted to ₱2,521,618 and ₱1,917,984 as at December 31, 2019 and 2018, respectively, as shown under „Accounts payable and other liabilities“ account (see Note 11).

The future minimum lease receivables are as follows:

	2019	2018	2017
Due within 1 year	₱ 2,521,618	₱ 1,917,984	₱1,819,955
Due beyond 1 year but not more than 5 years	-	-	-
	<b>₱ 2,521,618</b>	<b>₱ 1,917,984</b>	<b>₱1,819,955</b>

The carrying amount of the buildings being leased out is ₱23,703,655 and ₱25,029,039 and as at December 31, 2019 and 2018, respectively (see Note 8).

Outstanding balance of receivable from tenants as at December 31, 2019 and 2018 amounted to ₱4,391,109 and ₱3,963,978, respectively (see Note 5). Total rental income is ₱29,530,463 and ₱22,860,095, and ₱17,491,792 in 2019, 2018, and 2017, respectively (see Note 8).

## 21. MEMORANDUM OF AGREEMENT WITH AVIDA LAND CORPORATION

On December 17, 2012, PCIC subsidiaries, PPC, ICC, KCC, MPC and related parties, PCC, Westland Pacific Properties Corp. (WPPC), IPC and PHES („the Landowners“), entered into a MOA with ALC for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based on a Master Plan determined by ALC.

Under the MOA, the Landowners shall cede, transfer and convey the property including all its rights and interest on the property. The Landowner shall execute the Deed of Conveyance for the entire or certain portions of property and transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances as may be required in accordance with the development schedule of ALC.

In consideration for the conveyance by the Landowners of the property, the parties shall mutually agree on the value for each portion of the property.

On the same date, PPC entered into a Contract to Sell (CTS) with ALC, for the sale of 25,203 sq. meters of land located in Valenzuela City. The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) with 10% down payment, which was received during the year, and with the balance payable in three (3) equal installments from 2013 to 2015.

On November 29, 2019, the Landowners and ALC had agreed to irrevocably cancel, rescind, and terminate the MOA, and that both parties are absolutely release from their respective rights, obligations, undertakings, and claims (if any) arising from, in connection with, or incidental to the said agreements.

On the same date, the PPC and ALC also agreed to the rescission of the CTS. PPC paid the refund of the total purchase price including reimbursement of diligence costs and interest of down payment from December 17, 2012 to the date of rescission amounting to ₱15,047,791. ALC returned the copy of the certificate of title covering the property.

Upon return of the title and refund of down payment, the Group recognizes the land and reversal of the outstanding balance of installment contract receivable amounted to ₱57,316,896. Total cost of the capitalized land amounted to ₱64,216,267 (see Note 8).

## 22. LOSS PER SHARE

The following table presents information necessary to calculate the loss per share:

	2019	2018	2017
Consolidated net loss for the year	(₱41,958,807)	(₱22,354,676)	(₱18,069,272)
Weighted average number of common shares outstanding during the year	3,276,035,637	3,276,035,637	3,276,035,637
Loss per share	(₱ 0.0128)	(₱ 0.0068)	(₱ 0.0055)

## 23. COMMITMENTS AND CONTINGENCIES

Commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group are not reflected in the accompanying Group consolidated financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Group consolidated financial statements.

- a. On September 7, 1999, the BOD approved the execution of a third-party real estate mortgage on the Group's properties located in Quezon City with an actual area of 6,678 square meters to secure the loan of Waterfront Philippines, Incorporated (WPI), an affiliate, with the Social Security System (SSS) amounting to ₱375 million. In 2003, SSS foreclosed the asset mortgaged in the amount of ₱198,639,000.

The Group filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of ₱500 million. On January 12, 2015, the contract of loan and real estate mortgage were declared null and void by the RTC. Thus, WPI was directed to return the amount of ₱375 million to SSS and for SSS to return the properties and shares used as collateral. SSS filed an appeal to the Court of Appeals.

On August 30, 2019, the Court of Appeals issued its Decision reversing the RTC's Decision dated January 13, 2015 and Order dated May 11, 2015. The CA declared that the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" and the extra judicial foreclosure sale of the Green Meadows properties covered by Transfer Certificate of Title Nos. N-153395 and N-153396 are valid.

The CA ordered WPI to satisfy the deficiency under the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" in the sum of ₱841,567,136.85 due to SSS as of April 30, 2010. This obligation shall earn the stipulated interest and penalty charges, in accordance with the terms and conditions of the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock", computed from April 30, 2010 until finality of the Decision.

The Group filed several collection cases with third parties for the claims of certain amounts. Decisions were already reached by the court for collection of the sum of ₱1,476,534, however, execution was pending as at December 31, 2019 and 2018.

- b. On June 24, 2019, the Group filed a civil case for annulment of public auction reconveyance, cancellation and reinstatement of title and damages with the Regional Trial Court of San Mateo Rizal (RTC) for the Group's land with aggregate cost of ₱6,484,935. The complaint filed was dismissed by the RTC through the Resolution dated October 30, 2019 for failure of the Group to pay the full jurisdictional amount. The Group filed Motion for Reconsideration arguing that it was ready and willing to pay the full jurisdictional amount had the Office of the Clerk of Court (OCC) made the proper assessment, which was its duty and in which assessment plaintiff merely relied on. The Group also argues that the rule on the payment of docket fees should apply by analogy since the deposit required is also a jurisdictional amount and, accordingly, should be given time to pay the deposit upon reassessment by the OCC. On February 10, 2020, the Motion for Reconsideration was dismissed for lack of merit. Group has prepared its Certiorari Petition before the Supreme Court to be filed within the month of June, following the administrative circular on court submission.

## 24. SUBSEQUENT EVENTS

### *Impact of COVID-19*

In a move to contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. Enhanced community quarantine was likewise imposed in provinces outside the island of Luzon as imposed by their respective local government unit. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve. On May 16, 2020, the Enhanced Community Quarantine was downgraded to Modified Enhanced Community Quarantine in Metro Manila and to General Community Quarantine in most provinces which was further extended to May 31, 2020.

While management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19, the ultimate impact of the pandemic is highly uncertain and subject to change. The severity of these consequences will depend on certain developments, including the duration and spread of the pandemic, and impact on the Group's customers, suppliers, and employees. Leasing operations shall likewise be affected due to limited operating hours and tenants' liquidity. Collection of receivables may be affected due to possible negative impact to the finances of the tenants. Financial consequences of aforementioned impact are uncertain and cannot be predicted as of the date of the issuance of the Group's consolidated financial statements. Accordingly, management is not able to reliably estimate the impact of the pandemic on the Group's financial position and results of operation for future periods.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Group's consolidated financial statements as at and for the year ended December 31, 2019.

## 25. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and financing activities. The Group's risk management is coordinated with the Group, in close cooperation with the BOD, and focuses on actively securing the short-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Group is exposed to are described below.

### *Credit risk*

Credit risk refers to the risk that counterparty will default its contractual obligation resulting in financial loss to the Group. The Group's credit risk is primarily attributable to its financial assets which composed of cash, trade and other receivables, instalment contract receivables and advances to related parties.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, as summarized below:

*Credit risk exposure*

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

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

The Group's current credit risk grading framework is as follows:

Category	Description	Basis for recognizing ECLs	Base	Minimum allowance for credit losses	Stage
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	25%	2
In default	Amount is over 1 year to 2 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	50%	25%	3
	Amount is over 2 year to 3 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	25%	3
	Amount is over 3 year to 5 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	100%	100%	3

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below:

		December 31, 2019			
		Basis of recognizing ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash in banks – note 4	(a)		₱ 11,694,706	₱ –	₱ 11,694,706
Trade and other receivables – note 5	(b)	Lifetime ECL	134,369,868	( 90,670,276)	43,699,592
Advances to related parties – note 18	(b)	Lifetime ECL	165,863,569	( 135,461,784)	30,401,785
<b>Total</b>			<b>₱311,928,143</b>	<b>(₱226,132,060)</b>	<b>₱ 85,796,083</b>

		December 31, 2018			
		Basis of recognizing ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash in banks – note 4	(a)		₱ 12,593,158	₱ –	₱ 12,593,158
Trade and other receivables – note 5	(b)	Lifetime ECL	133,792,702	( 71,729,232)	62,063,470
Installment contract receivable – note 21	(c)	Lifetime ECL	57,316,896	–	57,316,896
Advances to related parties – note 18	(b)	Lifetime ECL	169,561,830	( 121,182,068)	48,379,762
<b>Total</b>			<b>₱373,264,586</b>	<b>(₱192,911,300)</b>	<b>₱180,353,286</b>

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash as described below.

*(a) Cash*

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱500,000 for every depositor per banking institution.

*(b) Trade and other receivables and advances to related parties*

Trade and other receivables

Credit risk arising from rental income from leasing of buildings is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants.

For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables.

The Group has applied simplified approach to measure the loss allowance using management's adopted policy on ECL on trade and other receivables.

Advances to related parties

For advances to related parties, the Group has applied the simplified approach to measure the loss allowance using management's adopted policy on ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

To measure the ECL, trade and other receivables, and advances to related parties have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade and other receivables, and advances to related parties are a reasonable approximation of the loss rates for the financial assets.

*(c) Installment contract receivable*

The Group reviews compliance by the debtor to agreement and takes into consideration the financial position of the debtor. The Group continuously assesses the compliance of both parties to the covenants attached to the Contract to Sell. The identified impairment loss on installment contract receivable is immaterial, hence no ECL is recognized.

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined based on months past due, as follows for trade and other receivables, and advances to related parties:

December 31, 2019	ECL rate	Gross Amount			Lifetime ECL
		Trade and other receivables	Advances to related parties	Total	
Performing	0%	₱2,324,188	₱ –	₱ 2,324,188	₱ –
Doubtful					
1-30 days	0.25%	1,413,223	–	1,413,223	3,533
31-90 days	1.25%	950,468	–	950,468	11,881
91-180 days	2.50%	185,948	–	185,948	4,649
181-360 days	6.25%	476,616	–	476,616	29,788
In default					
1-2 years	12.50%	–	–	–	–
2-3 years	25.00%	893,627	–	893,627	223,407
3-5 years	50.00%	75,457,560	60,803,569	136,261,129	68,130,564
Write-off	100%	52,668,238	105,060,000	157,728,238	157,728,238
		₱134,369,868	₱165,863,564	₱300,233,437	₱226,132,060

December 31, 2018	ECL rate	Gross Amount		Total	Lifetime ECL
		Trade and other receivables	Advances to related parties		
Performing	0%	₱ 1,967,728	₱ –	₱ 1,967,728	₱ –
Doubtful					
1-30 days	0.25%	883,352	–	883,352	2,208
31-90 days	1.25%	728,627	–	728,627	9,108
91-180 days	2.50%	127,520	–	127,520	3,188
181-360 days	6.25%	1,045,953	500	1,046,453	65,403
In default					
1-2 years	12.50%	893,627	26,360	919,987	114,998
2-3 years	25.00%	75,477,657	64,474,970	139,952,627	34,988,157
3-5 years	50.00%	–	–	–	–
Write-off	100%	52,668,238	105,060,000	157,728,238	157,728,238
		₱133,792,702	₱169,561,830	₱303,354,532	₱192,911,300

The management continues to review trade and other receivables and advances to related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower to settle on a net basis.

Impaired accounts represent account of third parties and related parties that have not paid for a long time and for which the Group believes that a portion of the receivables may not be collected. The allowance is estimated based on the Group's estimate for accounts which it believes may no longer be collected.

#### ***Equity Price risk***

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

Equity instruments designated at FVOCI in unquoted price are held for strategic rather than trading purposes. The Group does not actively trade these investments.

If the price of the financial assets at FVOCI had been 10% higher/lower other comprehensive income for the years ended December 31, 2019 and 2018 would decrease/increase by ₱1,250,000.

#### ***Liquidity risk***

The Group's policy is to maintain a balance between continuity of funding through cash advances from related parties.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table below has been drawn up based on undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay.

<b>December 31, 2019</b>	<b>With indefinite</b>	<b>With definite term of maturity</b>		<b>Total</b>
	<b>term of maturity</b>	<b>Due within one year</b>	<b>More than one year</b>	
Accounts payable and other liabilities*	₱ –	₱ 4,396,120	₱ –	₱ 4,396,120
Lease liability	–	40,090	–	40,090
Advances from related parties	493,413,638	–	–	493,413,638
Advances from lessees	–	6,192,985	–	6,192,985
	<b>₱ 493,413,638</b>	<b>₱10,629,195</b>	<b>₱ –</b>	<b>₱504,042,833</b>

\*excluding government liabilities

December 31, 2018	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities*	₱ –	₱4,332,314	₱ –	₱ 4,332,314
Advances from related parties	483,331,456	–	–	483,331,456
Advances from lessees	–	3,715,351	–	3,715,351
	<b>₱ 483,331,456</b>	<b>₱8,047,665</b>	<b>₱ –</b>	<b>₱491,379,121</b>

\*excluding government liabilities

Substantial portion of the Group's financial liabilities consist of advances from related parties. There is no specific terms of advances agreed with the related parties. The Group does not expect to pay its liabilities with related parties nor expect related parties to collect within twelve (12) months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

## 26. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for stockholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as share capital and deficit for the purpose of capital management.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities as shown in the consolidated statements of financial position less cash. Total capital is calculated as Equity as shown in the consolidated statement of financial position plus Net debt.

Gearing ratio compares some form of owner's equity to borrowed funds. It is a measure of financial leverage demonstrating the degree to which the Group's activities are funded by owner's funds versus creditors' funds.

During 2019, the Group's strategy, which was unchanged from 2018, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at December 31 were as follows:

	2019	2018
Debt	₱ 505,525,314	₱ 501,494,701
Cash	( 11,714,706)	( 12,613,158)
Net debt	493,810,608	488,881,543
Total equity	1,170,549,414	1,212,516,167
Total capital	₱1,664,360,022	₱1,701,397,710
Gearing ratio	29.67%	28.73%

The status of the Group's operation and management plan is fully disclosed in Note 1.

The Parent Company is subject to externally imposed capital requirement amounting to ₱6,250,000 which is the minimum paid-up capital requirement of SEC for mining companies. As at December 31, 2019 and 2018, the Parent Company is in compliance with this externally imposed capital requirement.

On the other hand, the Parent Company's subsidiaries are not subject to any externally imposed capital requirements.

## 27. FINANCIAL INFORMATION

### *Assets and liabilities not measured at fair value*

The following table gives information about how the fair values of the Group's assets and liabilities, which are not measured at fair value but the fair values are disclosed at the end of each reporting period, are determined.

	2019		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
<b>Financial Assets</b>				
Advances to related parties	₱ 30,401,785	₱ 29,397,848	Level 2	(a)
<b>Non-Financial Assets</b>				
Investment properties	1,038,603,686	1,433,021,485	Level 2	(b)
Interest in joint operation	522,916,369	522,916,369	Level 2	(b)
	₱1,591,921,840	₱1,955,937,854		
<b>Financial Liabilities</b>				
Advances from related parties	₱ 493,413,638	₱ 477,119,990	Level 2	(a)

	2018		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
<b>Financial Assets</b>				
Advances to related parties	₱ 48,379,762	₱ 45,307,887	Level 2	(a)
<b>Non-Financial Assets</b>				
Investment properties	976,958,982	1,433,021,485	Level 2	(b)
Interest in joint operation	522,916,369	522,916,369	Level 2	(b)
	₱1,548,255,113	₱2,001,245,741		

	2018		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
<b>Financial Liabilities</b>				
Advances from related parties	₱ 483,331,456	₱ 452,642,308	Level 2	(a)

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

- (a) The fair values of advances to related parties and advances from related parties are determined based on the discounted value of future cash flows using the prevailing PH BVAL rates that are specific to the tenor of the instruments' cash flow as at reporting date. Discount rates used is 3.42% in 2019 and 6.78% in 2018.
- (b) The fair value was determined by reference to market transactions on arm's length terms using the cost and market data or direct sales comparison approach at the time of appraisal.

The fair value of cash, trade and other receivables, installment contract receivable, accounts payable and other liabilities, lease liability and advances from lessees approximate carrying value due to relatively short-term maturities.

## 28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation about the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes for the years ended December 31 are as follows:

	Balance as at January 1, 2019	Changes from financing cash flows	Balance as at December 31, 2019
<b>Advances from related parties</b>	₱ 483,331,456	₱10,082,182	₱ 493,413,638
<b>Lease liability</b>	152,413	( 112,323)	40,090
	₱ 483,483,869	₱ 9,969,859	₱ 493,453,728

	Balance as at January 1, 2018	Changes from financing cash flows	Balance as at December 31, 2018
Advances from related parties	₱ 502,488,360	(₱ 19,156,904)	₱ 483,331,456

\* \* \*

**Independent Auditors' Report on  
Components of Financial Soundness Indicators**


To the Board of Directors and Stockholders of  
**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
35<sup>th</sup> Floor, One Corporate Center  
Doña Julia Vargas Ave., corner Meralco Ave.  
Ortigas Center, Pasig City, Philippines

We have audited in accordance with Philippine Standards on Auditing, the financial statements of **Wellex Industries Incorporated and Subsidiaries** (the 'Group') as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 11, 2020. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

**DIAZ MURILLO DALUPAN AND COMPANY**

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

By:

  
Richard Noel M. Ponce  
Partner

CPA Certificate No. 120457  
SEC Accreditation No. 1738-A, Group A, effective until January 30, 2022  
Tax Identification No. 257-600-228  
PTR No. 8147698, January 18, 2020, Makati City  
BIR Accreditation No. 08-001911-012-2019, effective until September 29, 2022

June 11, 2020

**Global Reach, Global Quality**

Head Office : 7th Floor, Don Jacinto Building, De la Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines • Phone: +63(2) 894 5892 / 844 9421 / Fax: +63(2) 818 1872  
Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Philippines • Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029  
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Philippines • Phone/Fax: +63(82) 222 6636  
Palawan Office : 2F MRC Building, Pineda Road, Brgy. San Pedro, Puerto Princesa City, Palawan 5300 Philippines • Phone +63(48) 716 1580  
Website : www.dmdcpa.com.ph

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS**  
**PURSUANT TO REVISED SRC RULE 68**  
**DECEMBER 31, 2019**

Ratio	Formula	2019	2018
Profitability ratios: Return on assets	Net income	P -	P -
	Divided by: Total assets	-	-
	Return on assets	NA	NA
Return on equity	Net income	P -	P -
	Divided by: Total equity	-	-
	Return on equity	NA	NA
Net profit margin	Net income	P -	P -
	Divided by: Total revenue	-	-
	Net profit margin	NA	NA
Gross profit margin	Total revenue	P 29,530,463	P 22,860,095
	Less: Cost of service	(14,003,316)	(13,270,248)
	Gross profit	15,527,147	9,589,847
	Divided by: Total revenue	29,530,463	22,860,095
	Gross profit margin	52.58%	41.95%
Solvency and liquidity ratios: Current ratio	Current assets	P 69,586,713	P 145,397,921
	Divided by: Current liabilities	11,391,941	17,496,045
	Current ratio	6.11:1	8.31:1
Debt to equity ratio	Total liabilities	P 505,525,314	P 501,494,701
	Divided by: Total shareholder's equity	1,170,549,414	1,212,516,167
	Debt to equity ratio	0.43:1	0.41:1
Quick ratio	Quick assets*	P 55,414,298	P 131,993,524
	Divided by: Current liabilities	11,391,941	17,496,045
	Quick ratio	4.86:1	7.54:1
Cashflow liquidity ratio	Cashflow from operations	(P 3,635,259)	P 937,960
	Divided by: Current liabilities	11,391,941	17,496,045
	Cashflow liquidity ratio	(31.91%)	5.36%
Financial leverage ratio Asset to equity ratio	Total assets	P 1,676,074,728	P 1,714,010,868
	Divided by: Total shareholder's equity	1,170,549,414	1,212,516,167
	Asset to equity ratio	1.43:1	1.41:1
Debt to asset ratio	Total liabilities	P 505,525,314	P 501,494,701
	Divided by: Total assets	1,676,074,728	1,714,010,868
	Debt to asset ratio	0.30:1	0.29:1

\*Includes Cash and Current Receivables

**Statement Required by Rule 68, Part I, Section 5,  
Revised Securities Regulation Code (SRC)**

To the Board of Directors and Stockholders of  
**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
35<sup>th</sup> Floor, One Corporate Center  
Doña Julia Vargas Ave., cor Meralco Avenue  
Ortigas Center, Pasig City, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **Wellex Industries Incorporated and Subsidiaries** as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 11, 2020. The supplementary information shown in the *List of Supplementary Information* are presented for the purpose of filing with the Securities and Exchange Commission and are not required part of basic consolidated financial statements. Such information is the responsibility of management and has been subjected to auditing procedures applied in the audits of basic consolidated financial statements. In our opinion, the information has been prepared in accordance with Rule 68 of the Revised Securities Regulation Code.

**DIAZ MURILLO DALUPAN AND COMPANY**

Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 11, 2020

SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022

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By:

  
Richard Noel M. Ponce

Partner

CPA Certificate No. 120457

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June 11, 2020

**Global Reach, Global Quality**

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Palawan Office : 2F MRC Building, Pineda Road, Brgy. San Pedro, Puerto Princesa City, Palawan 5300 Philippines • Phone +63(48) 716 1580  
Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**

List of Supplementary Information

DECEMBER 31, 2019

**SEC Supplementary Schedule as Required by the Revised SRC Rule 68**

- A. Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)
- B. Amounts Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
- C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
- D. Long-Term Debt
- E. Indebtedness of Related Parties
- F. Guarantees of Securities of Other Issuers
- G. Capital Stock

**Other Required Information**

Reconciliation of Retained Earnings Available for Dividend Declaration

Map showing the Relationship between the Company and its Related Entities

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Schedule A. Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)**  
**December 31, 2019**

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Statement of Financial Position	Valued based on market quotation at balance sheet date	Income received and accrued
<b>Financial assets at FVOCI</b>				
Bulacan Harbour Dev't. Corp.	125,000	₱12,500,000	₱           —	₱           —

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Schedule B – Amounts Receivable from Directors, Officers, Employees,**  
**Related Parties and Principal Stockholders (Other Than Related Parties)**  
**December 31, 2019**

Name and designation of debtor	Balance at beginning of period	Amounts collected	Amounts written-off	Current	Non-Current	Balance at end of period
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**Not Applicable**

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**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**

**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statement  
December 31, 2019**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Non-Current	Balance at end of period
<b>Direct Subsidiaries</b>							
Plastic City Industrial Corporation	₱ 43,011,804	₱2,441,652	₱ –	₱ –	₱ –	₱ 45,453,456	₱ 45,453,456
<b>Indirect Subsidiaries (PCIC Subsidiaries)</b>							
Pacific Plastic Corporation	100,951,896		(1,946,727)	–	–	99,005,169	99,005,169
Kennex Container Corporation	85,514,037	248,010	(500,000)	–	–	85,262,047	85,262,047
Inland Container Corporation	40,483,837		–	–	–	40,483,837	40,483,837
Rexlon Industrial Corp.	2,369,569	4,690,157				7,059,726	7,059,726
	<b>₱272,331,143</b>	<b>₱7,379,819</b>	<b>(₱2,446,727)</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱277,264,235</b>	<b>₱277,264,235</b>

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**

**Schedule D – Long-term Debt**

December 31, 2019

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related statement of financial position	Amount shown under caption "Long-term debt" in the related statement of financial position
Borrowings	Not Applicable	<i>Nil</i>	<i>Nil</i>

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Schedule E – Indebtedness to Related Parties (Long Term Loans**  
**From Related Companies)**  
December 31, 2019

Name of related party	Balance at beginning of period	Balance at end of period
Diamond Stainless Corporation	₱ 118,858,010	₱ 142,107,880
Plastic City Corporation	85,347,586	82,000,134
International Polymer Corp.	24,156,913	24,161,573
Kenstar Industrial Corporation	23,539,858	23,539,858
Philippine Estates Corporation	30,465,391	31,019,308
Rexlon Realty Corp.	23,187,370	–
Ropeman International Corp.	3,202,528	3,202,528
Pacific Rehouse Corp.	15,540,753	15,540,753
Philianson Land Corporation	718,211	–
Polymaster Industrial Corporation	196,042	–
The Wellex Group, Inc.	–	13,722,810
Key officers	158,118,794	158,118,794
	<b>₱ 483,331,456</b>	<b>₱ 493,413,638</b>

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Schedule F – Guarantees of Securities of Other Issuers**  
December 31, 2019

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
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**Not Applicable**

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**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**

**Schedule G – Capital Stock**

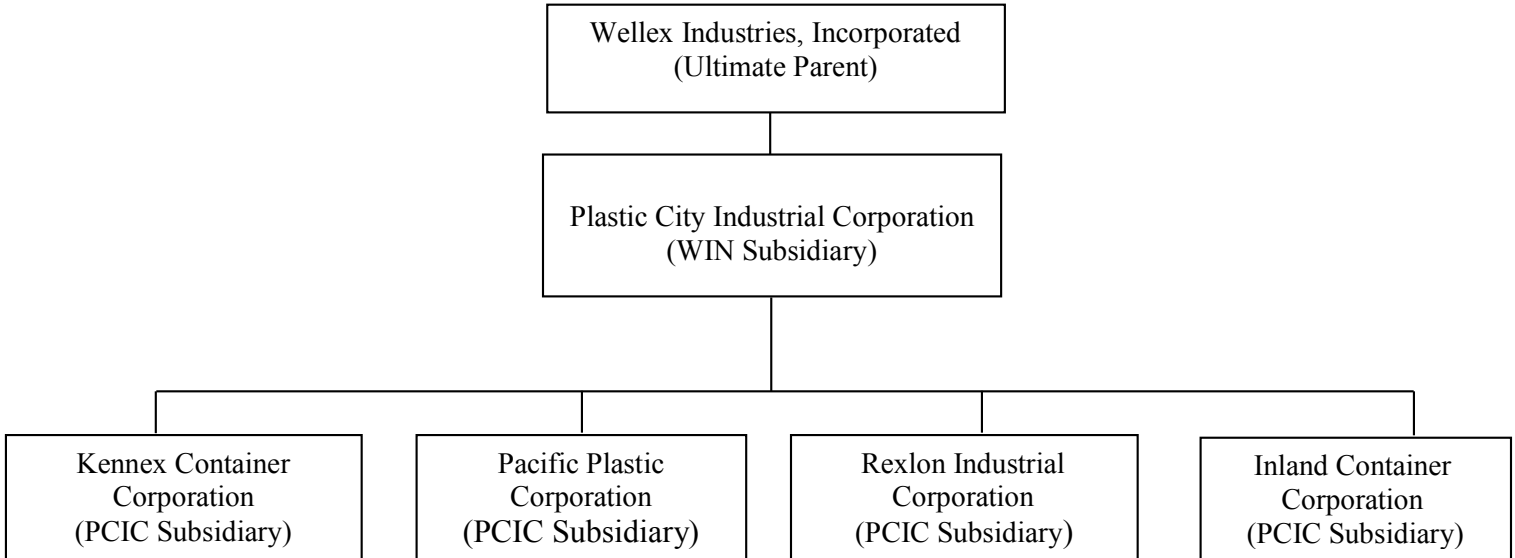
December 31, 2019

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statement of financial position caption	Number of shares reversed for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
<b>Common shares</b>	₱ 3,500,000,000	₱ 3,276,045,637	₱ –	₱ 10,000	₱ 1,858,414,432	₱ 1,417,621,205

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Reconciliation of Retained Earnings Available For Dividend Declaration**  
**December 31, 2019**

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	P	–
<b>Add: Net income actually earned/realized during the period</b>		<u>–</u>
Net income during the period closed to Retained Earnings		–
Less: Non-actual/unrealized income net of tax		–
Equity in net income of associate/joint venture		–
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)		–
Unrealized actuarial gain		–
Fair value adjustment (M2M gains)		–
Fair value adjustment of Investment Property resulting to gain		–
Adjustment due to deviation from PFRS/GAAP-gain		–
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS		<u>–</u>
Sub-total		<u>–</u>
Add: Non-actual losses		–
Depreciation on revaluation increment (after tax)		–
Adjustment due to deviation from PFRS/GAAP – loss		<u>–</u>
Loss on fair value adjustment of investment property (after tax)		<u>–</u>
<b>Net income actually earned during the period</b>		<b>P –</b>
Add (Less):		
Dividend declarations during the period		–
Appropriations of Retained Earnings during the period		–
Reversals of appropriations		–
Effects of prior period adjustments		<u>–</u>
<b>TOTAL RETAINED EARNINGS</b>		<u>–</u>
<b>END AVAILABLE FOR DIVIDEND</b>		<u><b>P –</b></u>

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Map of Conglomerate or Group of Companies within Which the Company Belongs**  
**December 31, 2019**



*Wellex Industries, Inc.*

**Unaudited Financial Statements  
For the Quarter Ended  
June 30, 2020 and 2019**

## Re: Wellex Industries, Inc.\_SEC Form 17-Q 2nd Qtr\_13Aug2020

---

From: MSRD COVID19 (msrd\_covid19@sec.gov.ph)  
To: wellexindustries@yahoo.com  
Cc: nbleguarda@sec.gov.ph; cegaliza@sec.gov.ph  
Date: Thursday, August 13, 2020, 09:57 PM GMT+8

---

Sir/Madam,

We acknowledge receipt of your email below and the attached documents thereto.

Thank you.

Regards,

**MARKETS AND SECURITIES REGULATION DEPARTMENT**  
**PHILIPPINE SECURITIES AND EXCHANGE COMMISSION**

On Thu, Aug 13, 2020 at 2:02 PM WELLEX INDUSTRIES, INC INCORPORATED <[wellexindustries@yahoo.com](mailto:wellexindustries@yahoo.com)> wrote:

Hi,

Please see attached SEC Form 17-Q 2nd Qtr of WELLEX INDUSTRIES, INC. together with the Certification for the submission of Quarterly Report through electronic email.

Thank you!

Regards,  
WELLEX INDUSTRIES, INC.

## Certification

I, Annabelle T. Abunda, Compliance Officer of Wellex Industries, Inc. with SEC registration number 11790 with principal office at 35<sup>th</sup> Flr. One Corporate Center, Dona Julia Vargas, cor Meralco Ave., Ortigas Center, Pasig City, on the oath state:

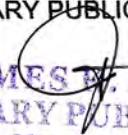
- 1) That on behalf of Wellex Industries, Inc. I have caused this Quarterly Report SEC Form 17-Q to be prepared;
- 2) That I read and understood its contents which are true and correct of my own personal knowledge and/or based on true records;
- 3) That the company Wellex Industries, Inc. will comply with the requirements set forth in SEC Notice dated June 24, 2020 for a complete and official submission of reports and/or documents through electronic mail; and
- 4) That I am fully aware that documents filed online which requires pre-valuation and/or processing fee shall be considered complete and officially received only upon payment of a filing fee.

IN WITNESS WHEREOF, I have hereunto set my hand this 1 AUG 12 2020 day of \_\_\_\_\_ 20\_\_\_\_.

  
\_\_\_\_\_  
Affiant

SUBSCRIBED AND SWORN before me this 1 AUG 12 2020 day of \_\_\_\_\_ 20\_\_\_\_.

NOTARY PUBLIC

  
ATTY. JAMES D. ABUGAN  
NOTARY PUBLIC  
Appt. No. 0442-19  
Until Dec 31, 2020

IBP No. 101013 01/03/2020 Rizal Chapter  
Roll No. 26390 Lifetime

MCLE No. VI-0012875 Until 4/14/2022  
TIN No. 116-239-956

PTR No. 43330065 /01-03-2020  
Tel. No. 631-40-90  
Mandaluyong City

MANDALUYONG CITY

DOC. NO. 197  
PAGE NO. 40  
BOOK NO. 96  
SERIES OF 20 MD

**COVER SHEET**

0 0 0 0 0 1 1 7 9 0

SEC Registration No.

W E L L E X I N D U S T R I E S , I N C .  
A N D S U B S I D I A R I E S

(Company's Full Name)

3 5 T H F L R . O N E C O R P O R A T E C E N T E R

D O Ñ A J U L I A V A R G A S C O R . M E R A L C O

A V E S . , O R T I G A S C E N T E R , P A S I G C I T Y

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

**Atty. Mariel L. Francisco**

Contact Person

**(02) 706-7888**

Contact Telephone No.

1 2    3 1

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**1,002**

Total No. of Stockholders

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**2<sup>nd</sup> QUARTER REPORT: WIN**

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the Quarterly Period ended **June 30, 2020**
2. SEC Identification Number: **11790**
3. BIR Tax Identification No.: **003-946-426-000**
4. **WELLEX INDUSTRIES, INCORPORATED**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
(Province, country or other jurisdiction of incorporation or organization)
6. (SEC Use only)  
Industry Classification Code
7. **35<sup>th</sup> Flr. One Corporate Center, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig**  
Address of principal office
8. **Telephone No. (02) 8706-7888**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address, and former fiscal year, if changed since last report.

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

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding: and Amount of Debt Outstanding</u>
Common Shares – ₱1.00 par value	Issued - ₱3,271,938,180

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

Yes [  ]                      No. [  ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The

Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ x ]                      No [ ]

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

Yes [ x ]                      No [ ]

13. The aggregate market value of the voting stock held by non-affiliates: ₱268,558,781

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.4, and the accompanying notes to financial statements

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

	Amounts in PhP			
	Apr-Jun, 2020	Apr-Jun, 2019	Jan-Jun, 2020	Jan-Jun, 2019
<b>Income Statement</b>				
Rental Income	P5,480,903	P6,993,052	P13,599,032	P14,132,584
Direct Costs and Expenses	3,088,582	3,769,775	6,345,850	6,124,976
Gross Profit	2,392,321	3,223,277	7,253,182	8,007,609
Operating Expenses	4,295,459	7,525,189	7,935,723	12,547,598
Loss from Operations	(1,903,137)	(4,301,912)	(682,541)	(4,539,990)
Other Income	27,992	82,999	110,333	(285,409)
Finance Costs	-	-	-	-
Loss before Tax	(1,875,146)	(4,218,914)	(572,207)	(4,825,399)
Income Tax Expense	1,577,885	-	1,577,885	-
<b>Net Loss for the period</b>	<b>(3,453,031)</b>	<b>(4,218,914)</b>	<b>(2,150,093)</b>	<b>(4,825,399)</b>
<b>Loss per share</b>	<b>(P0.0011)</b>	<b>(P0.0013)</b>	<b>(P0.0007)</b>	<b>(P0.0015)</b>

	June 2020	June 2019	December 2019
<b>Balance Sheet</b>			
Current Assets	P66,737,892	P132,310,293	P69,586,713
Noncurrent Assets	1,602,334,359	1,561,786,401	1,606,488,015
<b>Total Assets</b>	<b>1,669,072,251</b>	<b>1,694,096,693</b>	<b>1,676,074,728</b>
Current Liabilities	13,431,325	18,661,653	11,391,941
Noncurrent Liabilities	487,241,605	467,744,273	494,133,373
Stockholders' Equity	1,168,399,322	1,207,690,769	1,170,549,414
<b>Total Liabilities and Equity</b>	<b>P1,669,072,251</b>	<b>P1,694,096,694</b>	<b>P1,676,074,728</b>

#### **Quarter ended June 30, 2020 as compared with quarter ended June 30, 2019**

As of the quarter ending June 30, 2020, the company has ceased commercial operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the second quarter of 2020 amounted to P5.5 million as compared to the same quarter of 2019 amounting to P7 million or a decrease of P1.5 million or 21.43%. Number of areas being leased out for the second quarter of 2020 is higher than the same quarter of 2019 and rental rates are adjusted higher to cover fixed and overhead expenses.

Income/(Loss) per share comparison for the quarter ended June 30, 2020 and 2019 are (P0.0011) and (P0.0013), respectively.

As of June 30, 2020, there are eleven (11) companies leasing inside the PCIC compound occupying twenty-one (21) areas. List of companies are as follows:

	Tenants	Area in sqm	Contract Period	Rental Income (in PhP)
1	SMYPC - MANILA GLASS PLANT - bldg 22-A	1,134	03/31/20-09/30/20	172,125
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	1,134	03/31/20-09/30/20	172,125
3	SMYPC - MANILA PLASTIC PLANT - bldg 30	2,200	03/31/20-09/30/20	333,929
4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/18-09/05/20	463,251
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/18-09/14/20	517,857
6	SMYPC - MANILA PLASTIC PLANT - bldg 37	2,160	08/16/19-08/16/20	385,714

7	SMYPC - MANILA PLASTIC PLANT - bldg 41	2,736	08/16/19-08/16/20	488,571
8	SMYPC - MANILA PLASTIC PLANT - bldg 42	1,980	08/16/19-08/16/20	353,588
9	CRISTINE GUEVARRA - bldg 34A	2,000	10/01/19-09/30/21	140,000
10	JESSIE LYN TAJALE - bldg 44	2,800	01/01/20-12/31/21	500,000
11	GRACEFUL LOGISTICS-open space 10	2,000	05/15/20-05/14/21	200,000
12	TRIPLE SEVEN J.R.T. BUILDERS - B15	1,100	01/01/20-12/31/20	196,429
13	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/20-05/31/21	100,000
14	SAN MIGUEL BREWERY INC.- bldg 23	3,105	04/01/19-04/30/20	504,285
15	SAN MIGUEL BREWERY INC.- shipping yard	1,430	04/01/19-04/30/20	150,278
16	SAN MIGUEL BREWERY, INC - Bldg 24	1,476	03/01/19-03/31/20	239,718
17	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	1,500	03/01/19-03/31/20	157,634
18	JHSA CORP. (formerly Big Thumb Ent. - bldg 23 open space	35	01/01/20-12/31/20	6,000
19	GOCHEMBROS CORP.- bldg 26 (formerly Goeng mktg)	524	01/01/20-12/31/20	93,571
20	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/20-01/15/21	187,500
21	HIGANTIS CONTRACTOR CORP. - bldg 18	697.50	08/01/19-07/31/20	118,326

Direct cost and operating expenses for the second quarter of 2020 totaled ₱7.4 million as compared to ₱11.3 million for the second quarter of 2019 or a decrease of ₱3.9 million or 34.31%. The amount was recorded and mainly attributable to the following:

1. Direct cost consists of depreciation expense, repairs and maintenance, security services, property taxes and insurance. Total direct cost recorded for the second quarter of 2020 amounted to ₱3.1 million and ₱3.8 million for the second quarter of 2019.
2. Operating expenses decreased by ₱3.2 million or 42.44% resulted by the movements on the following accounts: decrease in salaries by ₱0.5 million, light & water by ₱0.2 million, taxes & licenses by ₱0.1 million, depreciation expense by 1.5 million, commission & rebates by ₱0.3 million, professional fees by ₱.2 million and others by ₱.4 million.

### **Performance Indicators**

The Parent Company is still in the process of discussing with potential investors for planned forays into new business lines. Its subsidiary, PCIC, has ceased its manufacturing operation since 2002 due to the Asian crises and stiff business competition and had leased out its building facilities for revenue. The Group determines their performance on the following five (5) key performance indicators:

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 2nd quarter of 2020, the company has an average of ₱260,995 rental income per tenant or a decrease of ₱43,050.37 rental income per tenant or 14.16% as compared to 2nd quarter of 2019. Collection of receivables was affected due to negative impact to the finances of the tenants of the COVID 19 pandemic.
2. Receivables - the company assesses collection of receivables and management of credit by determining the past due ratio done thru the aging of receivables. For the second quarter of 2020, ratio of past due receivables to total outstanding was 95.57%. Since most of the contracts are short term (three to six months), past due ratio of receivables is maintained at least below 10% by the management. The current quarter exceeds the management gauge on past due receivables due to significant number of receivables from third parties which are no longer operating. These third parties are previous subsidiary of the Group.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. Second quarter of 2020 has a gross profit margin of 43.65%, lower by 25.78% for the second quarter of 2019. Increase pertains to higher rental income recorded for the current quarter.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations. Working capital ratio for second quarter of 2020 was 496.88% as compared to 709% on the second quarter of 2019. Decrease is attributable to decrease in current assets by ₱65.6 million or 49.56% and decrease in current liabilities by ₱5.2 million or 28.03%.
5. Advances by the Affiliates - For the second quarter of 2020, the company has total advances from affiliates amounting to ₱486.5 million or an increase of ₱19.4 million from last year's ₱467.1 million balance.

Further discussion of accounts of which registered an increased or decreased by 10% or more follows:

#### Cash

The Group's cash increased by ₱4.1 million or 79.87% as of June 30, 2020 as compared to the same quarter last year due to the following activities: (a) net cash provided in operating activities is ₱2.5 million, (b) net cash generated in investing activities is ₱1.9 million and (c) net cash used in financing activities ₱6.9 million.

#### Trade and Other Receivables (net)

Trade and Other Receivables (net) decreased by ₱11.1 million as compared to last year, mostly attributable to the increase in advances to third parties amounting to ₱6.0 million and rental receivables of ₱1.8 million and additional impairment by ₱18.9 million

Certain trade receivables were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (Note 25).

#### Installment Receivable

Upon return of the title and refund of down payment, the Group recognizes the land and reversal of the outstanding balance of installment contract receivable amounted to ₱57,316,896.

#### Property and equipment

There's a decrease in property and equipment amounting to ₱2.8 million or a decrease of 70.77% on the 2<sup>nd</sup> quarter of June 30, 2020 as compared last year due to reported depreciation.

#### Accounts Payable and other liabilities

Accounts payable pertains to the amount due to suppliers' payable from thirty (30) to ninety (90) days from the date of sale and do not bear any interest. The decrease of the amount is due to the decrease of government liabilities by ₱5.7 million or 44.08%

#### Advances to related parties

A decrease of ₱18.3 million or 39.14% versus last year was due to the application of PFRS 9 which was implemented last January 1, 2018. This will be briefly discussed in the Interim Consolidated Financial Statements attached on this report. Also, the decrease is due to collections and/or offsetting of related receivables and payables among the Group. The Group, in the normal course of business, has transactions with related parties. Receivables from related parties with common key management are normally collected the following year, unsecured, non-interest bearing and with no guarantee.

### **(i) Summary of Material Trends, Events and Uncertainties** **Wellex Industries, Inc.**

The Parent Company has four properties in Rodriguez (formerly Montalban), Rizal, with an aggregate cost of ₱52,335,000 as at June 30, 2020 and 2019. Land was received in exchange for its shares of stock in accordance with stock-for-assets swap arrangement entered into with various affiliates.

No.	Land Title	Area (in Sqm.)
1	TCT No. 330602	3,283
2	TCT No. 330603	49,884
3	TCT No. 330604	33,817
4	TCT No. 330605	315,592

Land with aggregate carrying amount of ₱6,484,935 as at June 30, 2020 and 2019, was under litigation (Note 22).

As at June 30, 2020 and 2019, the Parent Company's properties are not subject to any liens or encumbrances.

### **Plastic City Industrial Corporation and its Subsidiaries**

On October 28, 2010, PCIC subsidiaries (namely ICC, PPC and KCC) with certain affiliates jointly filed a petition for corporate rehabilitation in order to revive its manufacturing operations. The Philippine National Bank (PNB) was the majority creditor.

On March 20, 2018, in order to terminate the proceedings and to finalize the settlement of all obligations of the Group with the creditors, the Group entered into a Settlement Agreement with the creditors to pay ₱950 million (the „Settlement Amount”) payable in two tranches (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty days after). Once the creditors received the Settlement Amount, the creditors released the titles and issued the corresponding Cancellation of Mortgage of its lien over third party Davao collaterals and the Valenzuela properties of the Group. Also, PNB sold the Quirino, Manila properties (previously foreclosed third party collateral) to Novateknika Land Corp (NLC) for a consideration of ₱170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC were released and discharge by the creditors from any and all claims, suits, and causes actions of whatever kind and nature against each other.

In view of the Settlement Agreement between the parties, on May 31, 2018 Valenzuela RTC has rendered a decision that the corporate rehabilitation case is now closed and terminated.

The Company is considering re-entry into the real estate market, specifically the development of industrial estates/subdivisions, for which it has already gained sufficient expertise in its operations in Valenzuela City.

The Company has put on hold its plans to acquire a mining company with an existing MPSA with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environment and Natural Resources (DENR) had placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

**(ii) Events that will Trigger Direct of Contingent Financial Obligation**

There are no events that will trigger direct of contingent financial obligation that is material to Wellex Industries Inc. and its subsidiaries including any default or acceleration of an obligation.

**(iii) Material Off-Balance Sheet Transactions, Arrangements, Obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of Wellex Industries Inc. with unconsolidated entities or other persons created during the reporting period. The present activity of the company is focused on reorganizing its operations in preparation for its new businesses.

**(iv) Commitment for Capital Expenditures**

Since the Plastic City Industrial Corporation ceased in commercial operation there are no commitments on major capital expenditures.

**(v) Any Known Trends, Events of Uncertainties (Material Impact on Net Sales / Net Income and Liquidity)**

The Group has ceased commercial operations since 2002 and currently disposed to lease out its warehouse facilities. Rental Income recorded for the year 2020 compared to 2019 decreased by 14.16%.

As of June 30, 2020 there are eleven (11) lessees occupying 21 areas such as the warehouses, shipyards, open spaces and extensions inside the Plastic City premise. Rental rates were increased to cover fixed and overhead expenses.

Current ratio (current assets over current liabilities) as of June 30, 2020 is 709% with current assets of ₱66.7 million over ₱13.4 million current liabilities. The Group's policy to address liquidity risk is to maintain a balance between continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees' premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

**(vi) Significant Element of Income or Loss That Did Not Arise From Continuing Operation**

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

The Company has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in

changes in accounting policies and adjusted amounts recognized in the financial statements. The comparative figures have been restated to comply with the transitional provisions in PFRS 9.

**(vii) Material Changes on Line Items in Financial Statements**

Material changes on line items in financial statements are presented under the “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Please refer to the attached Annex A.1 to A.5.

**(viii) Effect of Seasonal Changes in the Financial Condition or Results of Operations**

The financial condition or results of operations is not affected by any seasonal change.

**(ix) Financial Risk Disclosure**

The Group is exposed to a variety of financial risk which results from both its operating and financing activities. The Group’s risk management is coordinated with the Board of Directors, and focuses on actively securing the short-term cash flows by minimizing the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. Please refer to Annex A.5.

**(x) Disclosure under SEC Memorandum Circular No. 3, Series of 2012**

*PFRS 9, Financial Instruments (2014)*. PFRS 9, Financial Instruments replaces PAS 39 Financial Instruments – Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The standard requires all recognized financial assets that are within the scope of PAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flow that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debts investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that are attributable to changes in the credit risk of that liability is presented in other comprehensive income would create or increase as accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. The Company has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in changes in accounting policies and adjusted amounts recognized in the financial statements. The comparative figures have been restated to comply with the transitional provisions in PFRS 9

## **PART II – OTHER INFORMATION**

### **(1) Market Information**

The principal market of Wellex Industries Inc. common equity is the Philippine Stock Exchange, Inc. (PSE) where it was listed in 1958. List of the high and low sales price by quarter for the last 3 years are as follows:

		High	Low
2020	First Quarter	0.190	0.180
	Second Quarter	0.209	0.168
2019	First Quarter	0.243	0.240
	Second Quarter	0.235	0.231
	Third Quarter	0.255	0.244
	Fourth Quarter	0.234	0.200
2018	First Quarter	0.200	0.191
	Second Quarter	0.250	0.235
	Third Quarter	0.280	0.265
	Fourth Quarter	0.247	0.240
2017	First Quarter	0.193	0.190
	Second Quarter	0.214	0.210

The price information as of August 6, 2020 was closed at ₱0.200.

### **(2) Holders**

The numbers of shareholders of record as of June 30, 2020 were 1,002. Common shares issued and subscribed as of June 30, 2020 were 3,271,938,180.

#### **List of Top 20 Stockholders As of June 30, 2020**

<b>STOCKHOLDER'S NAME</b>	<b>NATIONALITY</b>	<b>SUBSCRIBED</b>	<b>%</b>
PCD NOMINEE CORP.	FILIPINO	914,238,225	27.942
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	6.438
ELVIRA A. TING	FILIPINO	111,850,000	3.418
KENNETH T. GATCHALIAN	FILIPINO	100,000,100	3.056
THE WELLEX GROUP, INC.	FILIPINO	80,000,000	2.445
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
ORIENT PACIFIC CORPORATION	FILIPINO	36,340,000	1.111
PCD NOMINEE CORPORATION (NON-FILIPINO)	OTHERS	30,617,020	0.936
LI CHIH-HUI	FILIPINO	23,500,000	0.718
WELLEX GLOBAL EQUITIES, INC.	FILIPINO	4,050,000	0.124
INTERNATIONAL POLYMER CORP.	FILIPINO	2,700,000	0.083
CANDICE CHOA COCUACO	FILIPINO	850,000	0.026
RODOLFO S. ETRELLADO	FILIPINO	750,000	0.023
PROBITY SEC. MGT. CORP.	FILIPINO	463,200	0.014
RICHARD L. RICARDO	FILIPINO	460,000	0.014
REGINA CAPITAL DEVELOPMENT CORPORATION	FILIPINO	300,000	0.009

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position**

**ANNEX A.1**

	Unaudited 30 Jun 20	Unaudited 30 Jun 19	Audited 31 Dec 19
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash - note 4	₱9,194,787	₱5,111,824	₱11,714,706
Trade and other receivables (net) - note 5	42,751,394	53,834,433	43,699,592
Installment contract receivable - note 19	-	57,316,896	-
Prepayments and other current assets - note 6	14,791,711	16,047,140	14,172,415
	<b>66,737,892</b>	<b>132,310,293</b>	<b>69,586,713</b>
<b>Noncurrent Assets</b>			
Financial Assets at FVOCI - note 7	12,500,000	12,500,000	12,500,000
Advances to related parties (net) - note 17	28,507,746	46,840,365	30,401,785
Investment properties (net) - note 8	1,037,070,892	975,426,188	1,038,603,686
Interest in joint operation (net) - note 9	522,916,369	522,916,369	522,916,369
Property and equipment (net) - note 10	1,146,481	3,922,635	1,873,304
Deferred Asset	12,027	-	12,027
Other assets	180,844	180,844	180,844
	<b>1,602,334,359</b>	<b>1,561,786,401</b>	<b>1,606,488,015</b>
<b>TOTAL ASSETS</b>	<b>1,669,072,251</b>	<b>1,694,096,693</b>	<b>1,676,074,728</b>
<b>LIABILITES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other liabilities - note 11	7,169,679	12,821,288	5,158,866
Advances from lessees - note 18	6,221,556	5,840,364	6,192,985
Lease Liability	40,090	-	40,090
	<b>13,431,325</b>	<b>18,661,653</b>	<b>11,391,941</b>
<b>Noncurrent Liabilities</b>			
Advances from related parties - note 17	486,521,870	467,077,073	493,413,638
Retirement benefits obligation - note 16	708,900	667,200	708,900
Deferred Tax Liability	10,835	-	10,835
	<b>487,241,605</b>	<b>467,744,273</b>	<b>494,133,373</b>
<b>Equity</b>			
Capital stock - note 12	3,276,045,637	3,276,045,637	3,276,045,637
Additional paid-in capital	24,492,801	24,492,801	24,492,801
Deficit	(2,132,129,116)	(2,092,837,669)	(2,129,979,024)
	<b>1,168,409,322</b>	<b>1,207,700,769</b>	<b>1,170,559,414</b>
Treasury stock - note 12	(10,000)	(10,000)	(10,000)
	<b>1,168,399,322</b>	<b>1,207,690,769</b>	<b>1,170,549,414</b>
<b>TOTAL LIABILITES AND EQUITY</b>	<b>₱1,669,072,251</b>	<b>₱1,694,096,694</b>	<b>₱1,676,074,728</b>

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**

**ANNEX A.2**

	<b>Unaudited</b>	Unaudited	<b>Unaudited</b>	Unaudited	Audited
	<b>Apr-Jun</b>	Apr-Jun	<b>Jan-Jun</b>	Jan-Jun	Dec
	<b>2020</b>	2019	<b>2020</b>	2019	2019
<b>RENTAL INCOME</b> - note 18	<b>₱5,480,903</b>	₱6,993,052	<b>₱13,599,032</b>	₱14,132,584	₱29,530,463
<b>DIRECT COSTS AND EXPENSES</b> - note 13	<b>3,088,582</b>	3,769,775	<b>6,345,850</b>	6,124,976	14,003,316
<b>GROSS PROFIT</b>	<b>2,392,321</b>	3,223,277	<b>7,253,182</b>	8,007,609	15,527,147
<b>OPERATING EXPENSES</b> - note 14	<b>4,295,459</b>	7,525,189	<b>7,935,723</b>	12,547,598	19,374,570
<b>LOSS FROM OPERATIONS</b>	<b>(1,903,137)</b>	(4,301,912)	<b>(682,541)</b>	(4,539,990)	(3,847,423)
<b>OTHER INCOME/(EXPENSE)</b> (net) - note 15	<b>27,992</b>	82,999	<b>110,333</b>	(285,409)	(34,887,383)
<b>FINANCE COSTS</b>	-	-	-	-	(553,916)
<b>LOSS BEFORE TAX</b>	<b>(1,875,146)</b>	(4,218,914)	<b>(572,207)</b>	(4,825,399)	(39,288,722)
<b>INCOME TAX EXPENSE</b>	<b>1,577,885</b>	-	<b>1,577,885</b>	-	2,670,085
<b>NET LOSS FOR THE PERIOD</b>	<b>(3,453,031)</b>	(4,218,914)	<b>(2,150,093)</b>	(4,825,399)	(41,958,807)
<b>LOSS PER SHARE</b> - note 20	<b>(₱0.0011)</b>	(₱0.0013)	<b>(₱0.0007)</b>	(₱0.0015)	(₱0.0128)

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**

**ANNEX A.3**

	<b>Unaudited</b> <b>30 Jun 20</b>	Unaudited 30 Jun 19	Audited 31 Dec 19
<b>CAPITAL STOCK</b>	<b>₱3,276,045,637</b>	₱3,276,045,637	₱3,276,045,637
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>24,492,801</b>	24,492,801	24,492,801
<b>DEFICIT</b>			
Balance at beginning of the period	<b>(2,129,979,024)</b>	(2,088,012,271)	(2,088,020,217)
Net loss for the period	<b>(2,150,093)</b>	(4,825,399)	(41,958,807)
Balance at end of the period	<b>(2,132,129,116)</b>	(2,092,837,669)	(2,129,979,024)
<b>TREASURY STOCK</b>	<b>(10,000)</b>	(10,000)	(10,000)
<b>TOTAL EQUITY</b>	<b>₱1,168,399,322</b>	₱1,207,690,769	₱1,170,549,414

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

**ANNEX A.4**

	Unaudited June 30, 2020	Unaudited June 30, 2019	Audited December 31, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income/(Loss) before tax	(P2,150,093)	(P4,825,399)	(P39,288,722)
Adjustments for:			
Depreciation - notes 8 and 10	2,259,617	5,287,149	8,519,716
Provision on ECL on:			
Trade and Receivables – note 5	-	-	18,941,043
Advances to related parties – note 17	-	-	14,279,716
Gain/(Loss) on:			
Sale of investment properties	-	-	-
Sales of investment in subsidiaries	-	-	-
Provision for retirement benefits	-	-	41,700
Finance costs	-	-	37,677
Interest income - note 4	(3,190)	(4,894)	(13,257)
Operating loss before working capital changes	106,334	456,856	2,517,873
Increase in:			
Trade and other receivables	948,197	8,229,038	(2,723,997)
Prepayments and other assets	(619,295)	(2,642,743)	(553,112)
Increase (decrease) in:			
Accounts payable and other liabilities	2,010,813	(959,406)	(2,480,730)
Advances from lessees	28,571	2,125,013	2,477,634
Net cash used in operations	2,474,620	7,208,758	(762,332)
Interest received	3,190	4,894	13,257
Income tax paid	-	-	(2,886,184)
Net cash provided by (used in) operating activities	2,477,811	7,213,652	(3,635,259)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Collection (grant) of advances to related parties	1,894,039	1,539,397	1,242,908
Acquisition of financial assets at FVOCI – note 7	-	-	-
Proceeds from sale of investment properties – note 8	-	-	-
Additions to investment properties – note 8	-	-	-
Net cash generated (used) in investing activities	1,894,039	1,539,397	1,242,908
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of advances from related parties	-	-	1,643,899
Payment of lease liability	-	-	(112,323)
Payments of advances from related parties	(6,891,768)	(16,254,383)	-
Finance cost paid	-	-	(37,677)
Net cash provided by (used in) financing activities	(6,891,768)	(16,254,383)	1,493,899
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(2,519,919)</b>	<b>(7,501,334)</b>	<b>(898,452)</b>
<b>CASH - note 4</b>			
At beginning of year	11,714,706	12,613,158	12,613,158
At end of year	P9,194,787	P5,111,824	P11,714,706

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

## **1. CORPORATE INFORMATION, STATUS OF OPERATIONS AND MANAGEMENT PLANS**

### **Corporate Information**

Wellex Industries Incorporated (the „Parent Company“) was incorporated in the Philippines on October 19, 1956. The Parent Company engaged primarily in the business of mining and oil exploration and was known as Republic Resources and Development Corporation (REDECO). The Parent Company extended its corporate life for another 50 years up to October 19, 2056 which was approved by the Securities and Exchange Commission (SEC) on July 20, 2007.

The Parent Company’s shares are listed and traded in the Philippine Stock Exchange (PSE).

The Parent Company wholly owns Plastic City Industrial Corporation (PCIC). PCIC has ceased its commercial operations but PCIC subsidiaries have leased out their warehouse and building facilities.

The registered office address of the Parent Company is located at 35th Floor, One Corporate Center, Dofia Julia Vargas Ave., cor. Meralco Ave., Ortigas Center, Pasig City, Philippines.

### **Status of Operations and Management Plans**

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The Group incurred losses in prior years which resulted to a deficit of ₱2,129,979,024, ₱2,088,012,271 and ₱2,006,203,583 as at December 31, 2019, 2018 and 2017, respectively.

In prior years, the Parent Company’s planned business of mining and oil exploration became secondary to real estate and energy development. On January 28, 2008, the BOD approved the amendment of the Parent Company’s primary purpose from a holding company to a company engaged in the business of mining and oil exploration.

The purpose of the amendment of the primary purpose was essentially to enable the Parent Company to ride the crest of a resurgent mining industry including oil exploration of the country’s offshore oil fields. The Parent Company’s strategy is to identify mining properties with proven mineral deposits particularly nickel, chromite, gold and copper covered by Mineral Production Sharing Agreements (MPSAs) and to negotiate for either a buy-out or enter into a viable joint venture arrangement. For its oil and mineral exploration activities, the Parent Company has identified and conducted initial discussions with potential investors.

However, the continuing global financial crises dampened the metal and oil prices that adversely affected the investment environment of mining and oil, and mineral exploration industry of the country. To finance its operating expenses, the Parent Company obtains advances from related parties.

The Parent Company has put on hold its plans to acquire a mining company with an existing MPSA with the Mines and Geosciences Bureau (MGB). This is due to the stringent requirements that the Department of Environmental and Natural Resources (DENR) had placed on several dormant mining companies and the subsequent business slowdown in the industry as a result thereof.

#### *Redevelopment of the Plastic City Complex in Valenzuela*

On December 17, 2012, the Group and other related parties entered into a Memorandum of Agreement (MOA) with Avida Land Corp (ALC) for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, house and lots. Out of the total 21.3 hectares, 12.8 hectares (representing 60% of the aggregate area) was owned by the Group and its affiliates and around 8.47 hectares were owned by related parties.

By virtue of a Rescission Agreement dated November 29, 2019, the Group elected not to pursue their Agreement with ALC for the development of the real estate. The project will now be undertaken in a joint venture with Philippine Estate Corporation (PHES), an affiliate, and will involve the conversion of the

industrial state into a mixed-use hub with complimentary commercial, office and residential zones. The Group believes that it will increase the value of the property and will encourage the development and growth of a new Central Business District of Valenzuela.

#### *Business and Operations*

Based on current operation, the Group's cash requirements can be generated internally from rental income from remaining lease contracts of its subsidiaries. However, should there be substantial deviation from the Group's current commercial activities; there might be a need to raise funds by way of advances from shareholders or officers and affiliates. The Group has substantial amount of receivables and advances to related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve (12) months.

The Group will explore new business opportunities in the development of industrial estates, and to this end, ocular inspections for suitable raw land for development into industrial estates are being carried out in Cavite, Laguna, Batangas and Bulacan. Discussions have been carried out with local government city planning officials in order to determine which sites are candidates for long-term success, and the Group is in constant communication with urban planners and construction engineers in order to fully understand the financial feasibility models for the development of these industrial estates.

Manpower will be outsourced when the operations commence and as the need arises. A capital-infusion and built-up program is also contemplated in order to breathe life into the Group's financial standing, the size and timing of which will be directly related to the planned entry into new business endeavors.

Consequently, the Group's financial statements have been prepared assuming that the Group will continue as a going concern. The Group's financial statements do not include any adjustments relating to the recoverability and classification of the recorded assets or the recognition and classification of liabilities that might result from the outcome of this uncertainty.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **Statement of Compliance**

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

### **Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

### **Functional and Presentation Currency**

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

### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Parent Company and subsidiaries it controls. Control is achieved when the Parent Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to

use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

When the Parent Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Consolidation of subsidiaries begins when the Parent Company obtains control over the subsidiaries and ceases when the Parent Company loses control of the subsidiaries. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting year, using accounting policies that are consistent with those of the Parent Company. Intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

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

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

### Composition of the Group

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2020 and 2019. The details of its subsidiaries are as follows:

Subsidiaries	Principal Activity	Ownership	
		2020	2019
Direct Ownership			
PCIC	Manufacturing	100%	100%
Indirect Ownership (Subsidiaries of PCIC)			
ICC	Manufacturing	100%	100%
KCC	Manufacturing	100%	100%
PPC	Manufacturing	100%	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	100%	100%

#### a) Direct ownership

##### *PCIC*

PCIC and its subsidiaries have ceased operations but have leased out their warehouse facilities. The intention of the Group is to continue its operation by focusing on "injection molding" due to its very encouraging prospect and which has shown to have a high viability rating that will contribute highly towards the Group's maximum operation and financial position. Management is continuously in search for reliable joint venture partners who have the means to continue its operations.

#### b) Indirect ownership

##### *ICC*

ICC was incorporated in the Philippines and registered with the SEC on June 23, 1981, primarily to engage in the manufacture of plastic containers. The Company ceased its commercial operations on July 30, 2000, and has leased out its buildings as warehouses.

### *KCC*

KCC was incorporated in the Philippines and registered with the SEC on February 14, 1983. The Company was established to manufacture all kinds of plastic containers. The Company ceased its commercial operations on April 30, 2002, and has leased out its buildings as warehouses.

### *PPC*

PPC was incorporated in the Philippines and registered with the SEC on October 1, 1982. The Company was established primarily to manufacture plastic raw materials, rigid and non-rigid plastic products, plastic compounds, derivatives and other related chemical substances. The Company ceased its commercial operations on May 16, 2002, and has leased out its buildings as warehouses.

### *RIC*

RIC was incorporated in the Philippines and registered with the SEC on October 9, 1984. The Company was engaged in the business of manufacturing and molding plastic products. The Company ceased its commercial operations on April 30, 2002.

## **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2019:

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

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

*PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation.* The amendments provide additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

*PFRS 11 (Amendments), Joint Arrangements – Previously Held Interest in a Joint Operation.* The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure its previously held interests.

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

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

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

The application of the above improvements will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

*PAS 28 (Amendments), Investments in Associates and Joint Ventures – 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 that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

*PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation.* This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition.

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

The above amendments will not have a significant impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments.* This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 Income Taxes when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The interpretation has no significant impact on the Group's consolidated financial statements.

### **New Accounting Standards and Amendments to Existing Standards Effective Subsequent to January 1, 2019**

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

#### *Annual Improvements to PFRS 2015-2017 Cycle*

The annual improvements addressed the following issues:

*PAS 1 (Amendments), Presentation of Financial Statements and PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

*PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation.* The amendments provide additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

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

*PFRS 17, Insurance Contracts.* The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held

and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

The new standard will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

### **Basis for Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries, which were all incorporated in the Philippines and are registered with the Philippine SEC, as at December 31 of each year.

### **Determination of Fair Value and Fair Value Hierarchy**

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Group determines the policies and procedures for both recurring fair value measurement and for nonrecurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 25.

## **“Day 1” Difference**

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

## **Financial Instruments**

### *Initial Recognition, Measurement and Classification*

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

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

The Group classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

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

The Group classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

### *Financial Assets at Amortized Cost*

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

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

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

As at June 30, 2020 and 2019, included under financial assets at amortized cost are the Group’s cash, trade and other receivables and advances to related parties (Notes 4, 5 and 17).

### *Cash*

The Group’s cash includes cash on hand and in banks. Cash in banks earn interest at respective bank deposit rates.

### *Trade and other receivables*

Receivables consist of advances to third parties, trade receivable, rental receivable and utilities receivable.

#### *Installment contract receivables*

Represent outstanding balance of total contract price from the sale of land with ALC.

#### *Advances to related parties*

Represent non-interest bearing cash advances to related parties for working capital requirements.

#### *Equity Instruments Designated at FVOCI*

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

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at June 30, 2020 and 2019, the Group elected to classify irrevocably its unquoted equity investments under this category (Note 7).

#### *Financial Liabilities at Amortized Cost*

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

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

As at June 30, 2020 and 2019, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, advances from related parties, lease liability and advances from lessees (Notes 11, 17 and 18).

#### *Accounts payable and other liabilities*

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other current liabilities include non-trade payables and accrued expenses.

#### *Advances from related parties*

Represents cash advances to related parties for working capital requirements.

#### *Advances from lessees*

Represent payment of advance rental which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period.

#### *Lease liability*

Lease liability represents the Group's obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value is effectively treated as a financial liability which is measured at amortized cost, using the rate of interest implicit in the lease as the effective interest rate.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized

amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

## **Derecognition of Financial Instruments**

### *Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a “pass-through” arrangement; or

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

### *Financial liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

## **Impairment of Financial Assets**

The Group recognizes an allowance for ECL for all debt instruments that are measured at amortized cost or at FVOCI. ECL is a probability-weighted estimate of credit losses over the expected life of the financial asset.

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

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

For trade and other receivables and advances to related parties, the Group applies a simplified approach in calculating ECL. The Group recognizes a loss using the management’s adopted policy on ECL at the end of each reporting period. The ECL on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

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

The Group recognizes impairment loss (reversals) in statements of comprehensive income for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statements of financial position.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are one (1) day past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of „performing". Performing means that the counterparty has a strong financial position and there are no past due amounts.

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

#### *Definition of default*

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

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than one (1) year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

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

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

#### *Write-off policy*

The Group writes-off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables and contract assets, when the amounts are over five (5) years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in consolidated statements of comprehensive income.

#### **Prepayments and other current assets**

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized at cost and subsequently measured at cost less any utilized portion and impairment loss. This account comprises prepaid items which are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

Prepayments are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

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

#### *Input value-added tax (VAT) and Other Prepaid Taxes*

Input VAT is the indirect tax paid by the Group on the local purchase of goods or services from a VAT registered person. When the input VAT exceeds the output tax, the excess is carried over the next reporting period and is recognized as an asset presented as input VAT in the consolidated statements of financial position. Creditable withholding tax pertains to taxes withheld by the customers upon payment and is to be deducted from income tax payable of the Group.

The Group's input tax and other prepaid taxes are stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax other prepaid taxes, if any, are maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claims. The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment loss.

## Property and Equipment

Property and equipment are tangible assets that are held for use supply of services, for rental to others, or for administrative purposes, and are expected to be used during more than one (1) period.

Property and equipment are initially measured at cost. The cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location of its intended use.

Subsequent to initial recognition, property and equipment are carried at cost less accumulated depreciation and any impairment in value.

Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred.

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

	In Years
Buildings and improvements	5 to 50
Machinery and equipment	4 to 32
Transportation equipment and tools	5 to 10
Furniture and fixtures	3 to 10
Right-of-use Asset	2

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

## Investment Properties

Investment properties are for rental and capital appreciation, and not occupied by the Group.

Investment properties are measured initially at cost, including transaction costs. Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred. Subsequent to initial recognition, investment properties (except land) are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	In Years
Buildings and improvements	50
Land improvements	5

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

A transfer is made to investment property when there is a change in use, evidenced by ending of owner occupation and commencement of an operating lease to another party. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of

owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

### **Interest in Joint Operation**

The Group has entered into joint operations for the development of properties.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation;

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the PFRS applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

### **Impairment of Non-Financial Assets**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increase to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments are measured (initial and subsequent) at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

### *Capital stock*

Capital stock represents the par value of the shares that are issued and outstanding as of reporting date.

### *Additional paid-in Capital*

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

### *Treasury shares*

Treasury shares are own equity instruments which are reacquired and are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Treasury shares represent capital stock of the Parent Company that is owned by its subsidiary.

### *Deficit*

Deficit includes all current and prior period results of operation as disclosed in the consolidated statements of comprehensive income.

## **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided in the normal course of business.

### *Rental income*

Rental from investment properties that is leased to a third party under an operating lease is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Rental received in advance is treated as advances from lessees and recognized as income when actually earned.

### *Interest income*

Interest income is accrued on a time proportion basis, by reference to the principal amount outstanding and at the effective interest rate applicable.

### *Other income*

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably.

## **Expense Recognition**

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

### *Direct cost and expenses*

Direct cost and expenses are recognized as expense when the related services are rendered.

### *Operating expenses*

Operating expenses constitute costs of operating and administering the business and are expensed as incurred.

## **Income Tax**

The tax expense for the period comprises current tax only. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carrying forward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carrying forward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

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

## **Leases**

The Group accounts for its leases as follows:

### *Group as Lessee*

#### *Leases under PAS 17 in 2018*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease.

Lease expense from operating lease is recognized in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance, taxes, insurance, and others are expensed as incurred.

### *Upon adoption of PFRS 16 in 2019*

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

The Group has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

#### *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating lease is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group is a party to operating leases as a lessor. Rentals received under operating leases are charged to consolidated statements of comprehensive income (net of any incentives).

#### **Related Party Relationships and Transactions**

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

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

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

#### **Retirement Benefits Obligation**

The Group has no formal retirement plan for its employees as it does not meet the minimum number of employees required for the establishment of a retirement benefit plan, but accrues the estimated cost of

retirement benefits required by the provisions of Republic Act (RA) No. 7641 (Retirement Law). Under RA 7641, the Group is required to provide minimum retirement benefits to qualified employees. The retirement cost accrued includes current service cost and estimated past service cost as determined under RA 7641.

### **Segment Reporting**

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

Operating segments are reported on the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 19.

### **Loss Per Share**

Loss per share are determined by dividing net loss for the year by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Group and held as treasury shares.

### **Provisions and Contingencies**

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

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

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

### **Events After the Reporting Date**

The Group identifies post-year events as events that occurred after the reporting date but before the date when the Group financial statements were authorized for issue. Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the Group financial statements. Post year-end events that are not adjusting events are disclosed in the Group financial statements when material.

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTION**

The preparation of the Group's consolidated financial statements requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements. These judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group believes the following represent a summary of these significant judgments and estimate and related impact and associated risks in the consolidated financial statements.

## **Significant Accounting Judgments in Applying the Group's Accounting**

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

### *Operating lease commitments*

#### *Group as lessee*

The Group has entered into contract of lease for its office space it occupies. In 2018, the Group has determined that all significant risks and benefits of ownership on this property will be retained by the lessor. Thus, the lease was accounted for as operating lease. In 2019, upon adoption of PFRS 16, Leases, the Group determines the contract if there is a substance of lease. In determining the substance of the lease, the Group considered, among others, whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Based on management judgment, the Group's lease for its office space has substance of lease, thus, the Group recognized right-of-use asset representing the right to use the leased asset and lease liability representing its obligation to make lease payments.

#### *Group as lessor*

The Group has entered into property leases on its buildings classified as investment properties. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets. The Group's operating lease contracts are accounted for as non-cancellable operating leases. In determining whether a lease contract is non-cancellable, the Group considers the provisions in the lease contract which among others, the payment of rental corresponding to the unexpired portion of the lease period. The Group accounts the lease of its buildings under operating lease in accordance with the provision of lease contract and terms of the lease.

#### *Distinction between investment properties and interest in joint operation*

The Group determines whether a property contributed to joint venture operations will be classified as investment properties or investment in joint venture. In making this judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group or whether it will be retained as part of the Group's asset and treated as the Group's share in the joint venture, based on the provisions governing the joint venture agreement. The Group considers land contributed to the joint venture as its investment. The Group, in the normal course of business does not hold the property to earn rentals or for capital appreciation; accordingly, land invested in the joint venture is classified as interest in joint operation (Note 9).

#### *Realizability of input VAT*

The Group reviews and assesses its input VAT for its recoverability. Factors which primarily affect the recoverability include the completeness of the supporting documentation, entitlement to claim VAT paid as input tax credit against output tax liabilities and future vatable revenue. As at June 30, 2020 and 2019, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱3,458,820 and ₱3,058,584 as at June 30, 2020 and 2019, respectively (Note 6).

#### *Operating segments*

The Group is organized and managed separately according to the nature of business. The Group reports its segment information according to its activities. Reportable segment operation pertains to the Group's leasing activity, while the non-reportable segment operation pertains to manufacturing operation, and mining and oil exploration (Note 18).

#### *Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

## **Significant Accounting Estimates and Assumptions**

*Determination of ECL on trade and other receivables, and advances to related parties*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 23.

The carrying amount of the Group's trade and other receivables amounted to ₱42,751,394 and ₱53,834,433 at June 30, 2020 and 2019, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱90,670,276 and ₱71,729,232 as at June 30, 2020 and 2019 (Note 5).

The carrying amount of the Group's advances to related parties amounted to ₱28,507,746 and ₱46,805,365 at June 30, 2020 and 2019, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱135,461,784 and ₱121,182,068 as at June 30, 2020 and 2019 (see Note 18).

*Useful lives of property and equipment, and investment properties*

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

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the investment property would increase recorded operating expenses and decrease noncurrent assets.

	2020	2019
Property and equipment - note 10	<b>₱1,146,481</b>	₱3,922,635
Investment properties - note 8	<b>53,488,645</b>	56,060,208
	<b>₱54,635,126</b>	<b>₱59,982,843</b>

*Impairment of non-financial assets*

Non-financial assets are periodically reviewed to determine any indication of impairment. Though management believes that the assumptions used in the estimation of fair values are reasonable and appropriate, significant changes in these assumptions may materially affect the assessment of the recoverable amounts and any resulting impairment loss could have a material adverse effect in the results of operations.

The accumulated impairment losses on investment properties, investment in joint venture, and property and equipment amounted to ₱211,424,935, ₱47,641,000, and ₱80,120,199, respectively, as at June 30, 2020 and 2019 (Notes 8, 9 and 10).

*Retirement benefits obligation*

The determination of the Group's obligation and cost of pension benefits is dependent on certain assumptions used by management in calculating such amounts. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation. In estimating the Group's retirement benefit obligation, the Group used the minimum required retirement payment of 22 ½ days for every year of service as mandated by RA 7641. The Group also considers the employees' current salary rate and the employees' number of service years.

Retirement benefits obligation as at June 30, 2020 and 2019 amounted to ₱708,900 and ₱667,200, respectively (Note 16). The Group believes that the retirement benefits obligation and retirement expense would not materially differ had the Group used projected unit credit method for the computation of retirement benefits because of minimal number of employees.

*Deferred tax assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The recognition of deferred tax assets is based on the

assessment that the Group will generate sufficient taxable profit to allow all or part of the deferred tax assets will be utilized.

#### 4. **CASH**

Cash as at June 30 are as follows:

	2020	2019
Cash on hand	P20,000	P20,000
Cash in bank	9,174,787	5,091,824
	<b>P9,194,787</b>	<b>P5,111,824</b>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from deposits amounted to P3,190 and P2,642 for the quarter ended June 30, 2020 and 2019, respectively (note 15).

There is no restriction on the Group's cash as at June 30, 2020 and 2019.

#### 5. **TRADE AND OTHER RECEIVABLES** – net

Trade and other receivables as at June 30 are as follows:

	2020	2019
Advances to third parties	P114,789,002	P108,827,147
Receivable from related parties – note 18	11,215,841	11,215,841
Rental receivable – note 19	6,843,287	5,001,558
Utilities receivable	416,958	458,910
Others	156,581	60,210
	<b>133,421,670</b>	<b>125,563,665</b>
Allowance for ECL	<b>(90,670,276)</b>	<b>(71,729,232)</b>
	<b>P42,751,394</b>	<b>P53,834,433</b>

The Group's trade and other receivables have been reviewed for indicators of impairment at the end of the year. Certain trade receivables were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized.

The movement in the allowance for ECL is as follows:

	2020	2019
Beginning Balance	P71,729,232	P62,118,634
Provision for ECL	18,941,044	9,610,598
	<b>P90,670,276</b>	<b>P71,729,232</b>

Advances to third parties represent receivable from a previously disposed subsidiary.

Other receivables include advances to employees and reimbursable expenses from PCIC subsidiaries' tenants.

The Group's trade and receivables as at June 30, 2020 and 2019 are not held as collateral for its liabilities and are free from any encumbrances.

#### 6. **PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and Other Current Assets as at June 30 are as follows:

	2020	2019
Creditable withholding tax	P10,980,790	P12,604,446
Input VAT	3,458,820	3,058,584
Prepaid Expenses	352,101	384,110
	<b>P14,791,711</b>	<b>P16,047,140</b>

As at June 30, 2020 and 2019, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

## 7. FINANCIAL ASSET AT FVOCI

The Group's financial asset at FVOCI consists of investment in unquoted shares of stock amounting to ₱12,500,000 represents ownership in Bulacan Harbour Development Corp. This investment is irrevocably designated at FVOCI as the Group considers this investment to be strategic in nature and it holds this investment to foreseeable future.

The Group's financial assets at FVOCI as at June 30, 2020 and 2019 are not held as collateral for its financial liabilities.

## 8. INVESTMENT PROPERTIES – net

Details of investment properties as at June 30 are as follows:

	Land	Land Improvement	Building and Improvements	Total
<b>Cost</b>				
Beginning	₱1,017,119,247	₱3,290,825	₱313,469,597	₱1,333,879,668
Write off	-	-	-	-
Ending	1,017,119,247	3,290,825	313,469,597	1,333,879,668
<b>Accumulated Depreciation</b>				
Beginning	-	3,290,825	80,560,222	83,851,047
Depreciation	-	-	1,532,794	1,532,794
Ending	-	3,290,825	82,093,017	85,383,841
<b>Accumulated impairment loss</b>				
Beginning and end of the year	33,537,000	-	177,887,935	211,424,935
<b>New Carrying amount, June 30, 2020</b>	<b>₱983,582,247</b>	<b>₱-</b>	<b>₱53,488,645</b>	<b>₱1,037,070,892</b>

	Land	Land Improvement	Building and Improvements	Total
<b>Cost</b>				
Beginning	₱980,176,630	₱3,290,824	₱312,179,250	₱1,295,646,704
Write off	-	-	-	-
Ending	980,176,630	3,290,824	312,179,250	1,295,646,704
<b>Accumulated Depreciation</b>				
Beginning	-	3,290,824	77,988,659	81,279,483
Depreciation	-	-	1,532,794	1,532,794
Ending	-	3,290,824	79,521,453	82,812,277
<b>Accumulated impairment loss</b>				
Beginning and end of the year	60,810,650	-	176,597,589	237,408,239
<b>New Carrying amount, June 30, 2019</b>	<b>₱919,365,980</b>	<b>₱-</b>	<b>₱56,060,208</b>	<b>₱975,426,188</b>

In 2018, the Group sold parcels of land with total carrying amount of ₱42,209,421 for a total consideration of ₱46,800,000 which resulted to a total gain of ₱4,590,579.

The carrying amount of the buildings being leased out is ₱23,703,655 and ₱25,029,039 as at June 30, 2020 and 2019, respectively (Note 18).

The latest appraisal on the Group's land, and building and improvements was on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. The fair value information of investment properties is disclosed in Note 26.

Land with aggregate amount ₱6,484,935 as at June 30, 2020 was under litigation (Note 22).

Except from restrictions described above, there are no other restrictions on the realizability of its investment properties and no other contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Fully depreciated investment properties still in use as at June 30, 2020 and 2019 amounted to ₱3,290,824.

#### 9. INTEREST IN JOINT OPERATION – net

The Group's investment in joint venture represents land contributed to the Joint Venture.

In July 1997, the Group, together with International Polymer Corp. (IPC), Pacific Rehouse Corp. (PRC) and Ropeman International Corp. (RIC), entered into a Joint Venture Agreement (the "Agreement") as Owners with Philippine Estates Corporation (PHES), as Developer. Under the agreement, the owners contributed land with an approximate area of 29.5629 hectares located in Canumay, Valenzuela City, whereby PHES will develop into industrial estate in accordance with the plans mutually agreed by venturers.

The developer is entitled to forty percent (40%) of the net proceeds after deducting all relevant taxes, marketing and administrative expenses, and the remaining sixty percent (60%) of the shall constitute the owners share, divided proportionately to the areas of property contributed.

The carrying amount of joint venture asset is as follows:

	2020	2019
Cost		
At beginning and end of period	₱570,557,369	₱570,557,369
Transfer to investment property – Note 8	-	-
	<b>570,557,369</b>	570,557,369
Accumulated impairment loss		
At beginning and end of period	47,641,000	47,641,000
Net carrying amounts	<b>₱522,916,369</b>	₱522,916,369

The Group's land is carried at cost, less accumulated impairment loss. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at June 30, 2020 and 2019, outstanding receivable from PHES amounted to ₱10,897,335 which pertain to the Group's share in the sale of lot net of expenses (Note 17).

No revenue and expenses recognized in relation to the joint venture for the second quarter of 2020.

#### 10. PROPERTY AND EQUIPMENT – net

The reconciliation of property and equipment as at June 30 as follows:

June 30, 2020	Building and Improvements	Machinery and Equipment	Transportation Equipment and Tools	Furniture and Fixtures	Right-Of- Use Asset	Total
Cost						
At beginning & end of period	₱800,000	₱547,522,657	₱8,203,282	₱8,828,122	₱216,701	₱565,570,762
Accumulated depreciation						
At beginning of period	800,000	465,565,271	8,203,282	8,828,122	180,584	483,577,259
Depreciation	-	726,823	-	-	-	726,823
Balance at end of period	800,000	466,292,094	8,203,282	8,828,122	180,584	484,304,082
Impairment loss						
Balance at beg and end of period	-	80,120,199	-	-	-	80,120,199
Net carrying amounts	₱-	₱1,110,365	₱-	₱-	₱36,117	1,146,481

June 30, 2019	Building and Improvements	Machinery and Equipment	Transportation Equipment and Tools	Furniture and Fixtures	Right-Of-Use Asset	Total
Cost						
At beginning & end of period	₱800,000	₱547,522,657	₱8,203,282	₱8,828,122	-	₱565,354,061
Accumulated depreciation						
At beginning of period	800,000	459,725,468	8,203,282	8,828,122	-	477,556,872
Depreciation	-	3,754,355	-	-	-	3,754,355
Balance at end of period	800,000	463,479,823	8,203,282	8,828,122	-	481,311,227
Impairment loss						
Balance at beg and end of period	-	80,120,199	-	-	-	80,120,199
Net carrying amounts	₱-	₱3,922,635	₱-	₱-	₱-	₱3,922,635

The Group entered into a chattel mortgage agreement with local bank for the purchase of transportation equipment payable in three (3) years until 2017. Transportation equipment was used as collateral to secure payment of borrowings. The loan was fully paid in 2017. Finance cost paid for the quarters ended 2020, 2019 and 2018 amounted to Nil. Fully depreciated property and equipment still in use as at June 30, 2020 and 2019 amounted to ₱17,831,404 and ₱17,831,404, respectively.

The Group has no other contractual commitment to acquire property and equipment as at June 30, 2020 and 2019.

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at June 30 are as follows:

	2020	2019
Accounts payable	₱4,725,193	₱5,345,476
Government liabilities	1,009,660	6,508,087
Deferred rental	1,434,826	967,725
	<b>₱7,169,679</b>	<b>₱12,821,288</b>

Government liabilities pertain to VAT payable and tax withheld from payment to suppliers, employee's compensation, and statutory contributions to SSS, PHIC and HDMF.

Accounts payable pertains to the amount due to supplier payable from thirty (30) to ninety (90) days from the date of sale and do not bear any interest.

Deferred rental represents advance rental paid by the lessees.

There were no assets of the Group that were collateralized for the above accounts payable and other liabilities as at June 30, 2020 and 2019.

## 12. CAPITAL STOCK

Details of the Parent Company's capital stock as at June 30 are as follows:

	2019	2018	2017
Authorized – 3,500,000 shares at ₱1 par value per share	<b>₱3,500,000,000</b>	₱3,500,000,000	₱3,500,000,000
Issued and fully paid – 3,276,045,637 shares at ₱1 par value per share	<b>3,276,045,637</b>	3,276,045,637	3,276,045,637
Treasury stock – 10,000 shares	<b>10,000</b>	10,000	10,000
	<b>₱3,276,035,637</b>	₱3,276,035,637	₱3,276,035,637

As at June 30, 2020, 2019 and 2018, the Parent Company has outstanding 3,271,938,180 shares under its name. Remaining unconverted shares under REDECO as at June 30, 2020, 2019 and 2018, is 4,107,457. Outstanding shares owned by the public as at June 30, 2020, 2019 and 2018, is 1,413,467,270.

### *Track record of registration of securities*

The Parent Company was originally registered as REDECO with the SEC on October 19, 1956. The Parent Company was listed with the PSE on January 9, 1958 with an initial registered 200,000,000 shares.

On May 25, 1995, the BOD and stockholders approved a reverse stock split and a subsequent increase in the authorized capital stock in line with its recapitalization program. Accordingly, on November 15, 1995, the Parent Company filed with the SEC a motion to effect a 1-for-5 reverse stock split which decreased its authorized capital from ₱75 million divided into 75 million shares to ₱15 million divided into 15 million shares, both with a par value of P1 per share. It was approved by the SEC on January 15, 1996. This was also done in order to recall all outstanding stock certificates and be able to account for the over-issuance of shares which management has decided to be absorbed by the Parent Company.

On January 8, 1996, the Parent Company filed with the SEC a motion to increase its authorized capital stock from ₱15 million divided into 15 million shares to ₱1 billion divided into 1 billion shares with a par value of P1. The increase was approved by the SEC on May 16, 1996. Subscriptions to the increase in authorized capital stock were made through stocks-for-assets swap.

On September 2, 1996, the Board of Directors and the stockholders approved a resolution to amend the Parent Company's Articles of Incorporation changing the par value per share of its capital stock from ₱0.01 to ₱1.00, removing the pre-emptive rights of shareholders and increasing the authorized capital stock from ₱500 million divided by 50 billion shares with a par value of ₱0.01 per share to ₱2.0 billion divided into 2.0 billion shares with a par value of ₱1.00 per share. The proposed amendments were approved by the SEC on September 27, 1996.

Relative to the approval of the proposed amendment, any part of such stock or other securities may, at any time, be issued, optioned for sale and sold or disposed of by the Parent Company pursuant to resolution of the Board of Directors, to such persons and upon such terms as the Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.

On August 22, 1997, the Board of Directors and the stockholders approved a further increase in the Parent Company's authorized capital stock from ₱2.0 billion to ₱3.5 billion divided into 3.5 billion shares with a par value of ₱1.00 per share. On March 11, 1998, the SEC approved the increase in the Parent Company's authorized capital stock.

### *Treasury shares*

Treasury shares represent 29,486,633 Parent Company's shares of stock acquired by Rexlon Industrial Corp. (RIC), a wholly owned subsidiary of PCIC, in prior years. In 2007 and 2009, RIC sold 13,000,000 and 16,476,633 shares of the Parent Company to a third party.

## **13. DIRECT COSTS AND EXPENSES**

Direct costs and expenses for the quarters ended June 30 are as follows:

	2020		2019	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Security services	<b>₱1,001,809</b>	<b>2,003,619</b>	₱1,026,559	₱1,954,119
Depreciation	<b>766,397</b>	<b>1,532,794</b>	766,397	1,532,794
Property taxes	<b>1,320,375</b>	<b>2,340,800</b>	1,506,072	2,086,958
Repairs and maintenance	-	<b>468,637</b>	470,747	551,104
Insurance	-	-	-	-
	<b>₱3,088,582</b>	<b>₱6,345,850</b>	₱3,769,775	₱6,124,976

## **14. OPERATING EXPENSES**

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

	2020		2019	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Depreciation	<b>₱363,411</b>	<b>₱726,823</b>	₱1,877,177	₱3,754,355
Professional fees	<b>819,000</b>	<b>1,008,000</b>	1,025,000	1,206,000

Salaries and wages	426,351	1,256,869	888,806	1,463,503
Taxes and licenses	1,886,846	2,942,538	1,999,443	3,188,872
Rent, light and water	208,773	445,737	450,288	848,235
Commission	10,500	183,959	295,055	444,323
Others	558,141	1,284,416	921,683	1,533,541
SSS, Medicare and EC contributions	22,437	87,381	67,738	108,769
	<b>₱4,295,459</b>	<b>₱7,935,723</b>	<b>₱7,525,189</b>	<b>₱12,547,598</b>

#### 15. OTHER INCOME/(LOSS) – net

Other income for the quarter ended June 30 is as follows:

	2020		2019	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Interest income	₱1,206	₱3,190	₱2,642	₱4,894
Miscellaneous income	26,786	107,143	₱80,357	₱160,714
Penalties and Surcharges	-	-	-	(₱451,017)
	<b>₱27,992</b>	<b>₱110,333</b>	<b>₱82,999</b>	<b>(₱285,409)</b>

Penalties and surcharges pertain to PPC and ICC BIR Audit 2017.

#### 16. RETIREMENT BENEFITS OBLIGATION

The Group adopted Republic Act No. 7641 as its arrangement to provide retirement benefits to all its regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

The movements in the defined benefit obligation recognized and presented as accrued retirement benefit obligation in the consolidated statement of financial position are as follows:

	2020	2019	2018
Balance at beginning of year	₱708,900	₱667,200	₱625,500
Retirement provision	-	-	-
Balance at end of year	<b>₱708,900</b>	<b>₱667,200</b>	<b>₱625,500</b>

The provision for retirement benefits in 2020, 2019 and 2018 were included under salaries, wages and employees benefit in the consolidated statements of comprehensive income.

Management believes that the defined benefit obligation computed using the provisions of R.A 7641 is not materially different with the amount computed using the projected unit credit method as required under PAS 19, Employee Benefits.

#### 17. RELATED PARTY TRANSACTIONS

The Group, in the normal course of business, has transactions with related parties. The specific relationships, amount of transaction, account balances, the terms and conditions and the nature of the consideration to be provided in settlement are shown below as at June 30.

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	
<b>Receivable from related parties with common key management</b>					
Philippine Estates Corp. (PHES)	₱-	₱-	₱10,897,335	₱10,897,335	(a)
Genwire Manufacturing Corp. (GMC)	-	-	318,506	318,506	(b)
	<b>₱-</b>	<b>₱-</b>	<b>₱11,215,841</b>	<b>₱11,215,841</b>	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	
<b>Advances to related parties with common key management</b>					
Polymax Worldwide Limited (PWL)	₱-	₱-	₱105,060,000	₱105,060,000	(c)
The Wellex Group, Inc. (TWGI)	(4,018,403)	(1,118,056)	55,275,567	59,293,970	(c)
Concept Moulding Corp. (CMC)	500	-	3,633,963	3,633,463	(c)
	(4,017,903)	(1,118,056)	163,969,530	167,987,433	
Allowance for impairment	(14,279,716)	-	(135,461,784)	(121,182,068)	
	(₱18,297,619)	(₱1,118,056)	₱28,507,746	₱46,805,365	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	
<b>Advances from related parties with common key management</b>					
Diamond Stainless Corp. (DSC)	₱23,249,870	₱-	₱142,107,880	₱118,858,010	(d)
Plastic City Corp. (PCC)	470,363	(542,566)	88,350,449	87,880,086	(d)
Philippine Estates Corp. (PHES)	553,917	-	31,019,308	30,465,392	(d)
International Polymer Corp. (IPC)	2,721,082	2,734,082	24,642,300	21,921,218	(d)
Kenstar Industrial Corp. (KIC)	-	(273)	23,539,858	23,539,858	(d)
Rexlon Realty Corp. (RRC)	(23,187,370)	-	-	23,187,370	(d)
Pacific Rehouse Corp. (PRC)	-	-	15,540,753	15,540,753	(d)
Ropeman Int'l Corp.	-	-	3,202,528	3,202,528	(d)
Asia Pacific Corp. (APC)	-	-	-	-	(d)
Concept Moulding Corp. (CMC)	-	-	-	-	(d)
	3,807,861	2,191,242	328,403,077	324,595,215	
<b>Advances from stockholders/ key management</b>					
Key management and officers	15,636,936	5,468,771	158,118,793	142,481,857	(e)
	₱19,444,797	₱7,660,014	₱486,521,870	₱467,077,073	

(a) *Receivable from venture*

The Group has outstanding receivable from PHES pertaining to the Group's share in the proceeds of the lot sold in 2015 held as interest in joint venture (Note 9). This receivable is unsecured, unguaranteed and to be settled in cash.

(b) *Receivable from related parties with common key management*

The Group pays operating expenses on behalf of GMC. These receivables are normally collected the following year, unsecured, non-interest bearing and with no guarantee. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

(c) *Advances to related parties with common key management*

*PWL*

On November 24, 2009, Philippine Veterans Bank foreclosed land to secure payment of loan of an affiliate amounting to ₱88.8 million by virtue of the real estate mortgage, executed by the Group. The property was sold at an auction to the highest bidder Philippine Veterans Bank which tendered an amount of ₱71.326 million.

The Group recognized advances to PWL of ₱105.1 million for the value of the land foreclosed to settle the affiliate loan with the bank.

The advances are unsecured, with no definite terms of repayment and with no guarantee.

#### *TWGI*

The Group provided non-interest bearing, unsecured and unguaranteed advances to TWGI. To settle the outstanding advances, the Group entered into the following contracts with TWGI, which in return, amounts incurred will be applied to the outstanding advances:

- The Group entered into a Consultancy Agreement with TWGI from May 1, 2016 to April 30, 2018. The contract has been renewed twice since then and is currently valid until April 30, 2022. Total consultancy fees incurred for the quarters ended June 30, 2020 and 2019, amounted to ₱120,000.
- Lease Agreement for the Group's office space for a monthly rental of ₱20,000, utilities of ₱5,000, and storage fee of ₱1,000 from May 1, 2016 to April 30, 2018. The Agreement was renewed for another two (2) years twice until April 30, 2022. Total rent expense and utilities amounted to ₱37,500 and ₱18,000, respectively, for the quarters ended June 30, 2020 and 2019.

#### *CMC*

The Group provided non-interest bearing and unguaranteed advances to CMC for working capital requirements. The advances are unsecured, with no definite terms of repayment and with no guarantee.

Certain advances to related parties were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (Note 23).

The movement in the allowance for ECL is as follows:

	2020	2019
Balance at beginning of year, as previously reported	₱121,182,068	₱58,205,806
Effect on adoption of PFRS 9	0	55,412,575
Balance at beginning of year, as restated	121,182,068	113,618,381
Provisions for ECL	14,279,716	7,563,687
At end of year	₱135,461,784	₱121,182,068

#### *(d) Advances from related parties*

In prior years, the Group obtained unguaranteed and non-interest-bearing cash advances from related parties intended to finance its operating expenses, capital expenditures and payment of outstanding obligations. The Group has not made any arrangement for the terms, security and guarantee on the advances as the subsidiaries has ceased its manufacturing operations. The advances are payable in cash upon settlement depending on the availability of funds. The Group, however, looks into the possibility of offsetting arrangements to settlement the obligation.

#### *(e) PHES*

In 2009, the Group and PHES executed unsecured promissory note (PN) for the advances from PHES with a term of five (5) years, and bear interest of three percent (3%) per annum, renewable upon agreement of the parties. This PN was renewed in 2014 with a three-year term which matured during the year with an interest of two percent (2%) per annum. This cash advance is to be settled through cash payments. On December 29, 2016, the PN was renewed for another three (3) years and will mature on 2020.

#### *(f) Advances from key management*

The Group obtains non-interest bearing and unsecured advances from stockholders and key officers for working capital purposes. The advances have no guarantee and definite terms of repayment. Payment will depend on the availability of funds. This amount are payable in cash upon settlement.

#### *(g) Collateral properties held by related parties*

As at June 30, 2020 and 2019, the Group's investment properties with a carrying amount of ₱381.14 million, were used as collateral to secure loans obtained by related parties (Note 8).

*(h) Remuneration of key management personnel*

With the cessation of the subsidiaries commercial operations in prior years and the Group is in tight cash position, management decided to suspend any form of compensation to key management and officers effective in 2004.

**18. LEASES**

The Group entered into lease contracts with various tenants for the rental of the Group's warehouse and building facilities. The lease term ranges from three (3) months to one (1) year and is renewable under such terms and conditions as the parties may agree, provided that at least ninety (90) days prior to the expiration of the lease period, the lessee shall inform the lessor in writing of his desire to renew the lease.

Lease contracts include payment of advance rental by the lessee which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period, less any corresponding obligation and damages. Outstanding advances from lessee amounted to ₱6,221,556 and ₱5,840,364 as at June 30, 2020 and 2019, respectively. Deferred rental income relative to the lease amounted to ₱1,434,826 as at June 30, 2020 and ₱967,725 as at June 30, 2019 as shown under "Accounts payable and other liabilities" account (Note 11).

Outstanding balance of receivable from tenants as at June 30, 2020 and 2019 amounted to ₱6,843,287 and ₱5,001,558, respectively (Note 5). Total rental income is ₱5,480,903 and ₱6,993,052 in June 30, 2020 and 2019, respectively.

**19. MEMORANDUM OF AGREEMENT WITH AVIDA LAND CORPORATION**

On December 17, 2012, PCIC subsidiaries, PPC, ICC, KCC, MPC and related parties, PCC, Westland Pacific Properties Corp. (WPPC), IPC and PHES („the Landowners"), entered into a MOA with ALC for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based on a Master Plan determined by ALC.

Under the MOA, the Landowners shall cede, transfer and convey the property including all its rights and interest on the property. The Landowner shall execute the Deed of Conveyance for the entire or certain portions of property and transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances as may be required in accordance with the development schedule of ALC. In consideration for the conveyance by the Landowners of the property, the parties shall mutually agree on the value for each portion of the property.

On the same date, PPC entered into a Contract to Sell (CTS) with ALC, for the sale of 25,203 sq. meters of land located in Valenzuela City. The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) with 10% down payment, which was received during the year, and with the balance payable in three (3) equal installments from 2013 to 2015.

On November 29, 2019, the Landowners and ALC had agreed to irrevocably cancel, rescind, and terminate the MOA, and that both parties are absolutely release from their respective rights, obligations, undertakings, and claims (if any) arising from, in connection with, or incidental to the said agreements.

On the same date, the PPC and ALC also agreed to the rescission of the CTS. PPC paid the refund of the total purchase price including reimbursement of diligence costs and interest of down payment from December 17, 2012 to the date of rescission amounting to ₱15,047,791. ALC returned the copy of the certificate of title covering the property.

**20. INCOME/(LOSS) PER SHARE**

The following table presents information necessary to calculate the loss per share for quarter ended June 30:

	2020	2019	2018
Consolidated net loss for the quarter	(P3,453,031)	(P4,218,914)	(P3,433,507)
Weighted average number of common shares outstanding during the quarter	3,276,045,637	3,276,045,637	3,276,045,637
Loss per share	(P0.0011)	(P0.0013)	(P0.0010)

## 21. CONTINGENCIES

Commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group are not reflected in the accompanying Group financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Group financial statements.

A. *G.R. No. 249337 entitled, "WATERFRONT PHILIPPINES, INC. (WPI), WELLEX INDUSTRIES, INC. (WII), AND THE WELLEX GROUP, INC. (TWGI) vs. SOCIAL SECURITY SYSTEM (SSS)", pending before the Supreme Court*

On 28 October 1999, SSS and WPI, WIN, and TWGI executed a "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" (the "subject contract") for a term loan facility in favor of WPI where the principal amount of the loan is Three Hundred Seventy Five Million Pesos (PhP375,000,000.00) for a term of five (5) years with interest on the principal amount at the equivalent rate of 364-day Philippine T-bill plus 3% but not lower than 14.5% per annum, re-priced annually.

As security for the said loan, WPI, as accommodation mortgagor, constituted a mortgage in favor of SSS over two (2) parcels of land registered under its name situated in Quezon City with a total area of 6,687.7 square meters, more or less, with TCT No. N-153395 and TCT No. N-153396, which were later on transferred under the name of SSS under TCT No. N-281261 and TCT No. N-281262.

On 31 March 2004, SSS filed a case against WPI, WIN and TWGI stated that the total obligation of WPI per the updated Statement of Account computed as of 31 March 2004 amounts to Four Hundred Fifty-Two Million Seven Hundred Fifty Thousand Eight Hundred Eighty-Six and Twenty-Eight Centavos (PhP452,750,886.28).

The Regional Trial Court dismissed the case and ordered SSS to reconvey to WIN the two (2) parcels of land covered by Transfer Certificate of Title Nos. N-153395 and N-153396 both of the Register of Deeds of Quezon City and return the certificate of shares of WPI, WIN and TWGI.

In an appeal before the Court of Appeals, the said court reversed and set aside the order of the RTC and ordered that the extrajudicial foreclosure of the two mentioned properties were valid and WPI to pay the deficiency loan with interest.

WPI, WIN and TWGI filed a Petition for Review before the Supreme Court on 4 November 2019. The SC ordered SSS to file its Comment.

As of June 30, 2020, the case is still pending.

B. *Wellex Industries, Inc. (formerly known as Republic Resources and Development Corporation) v. Macquarie Green Properties, Inc., et al., Civil Case No. 3185-19 SM (For: Annulment of Public Auction Sale, Reconveyance, Cancellation and Reinstatement of Title and Damages), Regional Trial Court (RTC), Branch 75, San Mateo, Rizal*

Land with an aggregate carrying amount of P6,484,934.87 as at June 30, 2020 and 2019 were under litigation.

On June 24, 2019, the Parent Company filed a civil case for annulment of public auction reconveyance, cancellation and reinstatement of title and damages with the Regional Trial Court of San Mateo Rizal (RTC). The complaint filed was dismissed by the RTC through the Resolution dated October 30, 2019 for failure of the Parent Company to pay the full jurisdictional amount. The Parent Company filed Motion for Reconsideration arguing that it was ready and willing to pay the full

jurisdictional amount had the Office of the Clerk of Court (OCC) made the proper assessment, which was its duty and in which assessment plaintiff merely relied on. The Parent Company also argues that the rule on the payment of docket fees should apply by analogy since the deposit required is also a jurisdictional amount and, accordingly, should be given time to pay the deposit upon reassessment by the OCC.

On February 10, 2020, the Motion for Reconsideration was dismissed for lack of merit. Parent Company has prepared its Certiorari Petition before the Supreme Court to be filed within the month of June, following the administrative circular on court submission.

As of June 30, 2020, the case is still pending.

## **22. SUBSEQUENT EVENTS**

### *Impact of COVID-19*

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. Enhanced community quarantine was likewise imposed in provinces outside the island of Luzon as imposed by their respective local government unit. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve. On May 16, 2020, the Enhanced Community Quarantine was downgraded to Modified Enhanced Community Quarantine in Metro Manila and to General Community Quarantine in most provinces which was further extended to July 31, 2020.

While management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19, the ultimate impact of the pandemic is highly uncertain and subject to change. The severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, and impact on the Group's customers, suppliers, and employees. Leasing operations was affected due to limited operating hours and tenants' liquidity. Collection of receivables was affected due to possible negative impact to the finances of the tenants.

## **23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risk which results from both its operating and financing activities. The Group's risk management is coordinated with the Board of Directors and focuses on actively securing the short-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Group is exposed to are described below:

### **Credit risk**

Credit risk refers to the risk that a counterparty will default its contractual obligation resulting in financial loss to the Group. The Group's credit risk is primarily attributable to its financial assets which composed of cash, trade and other receivables, instalment contract receivables and advances to related parties.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, as summarized below:

#### *Credit risk exposure*

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

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

The Group's current credit risk grading framework is as follows:

Category	Description	Basis for recognizing ECLs	Base	Minimum allowance for credit losses	Stage
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECS	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL-not credit impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	12%	2
In default	Amount is over 1-2 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	50%	15%	3
	Amount is over 2-3 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	100%	15%	3
	Amount is over 3-5 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off	100%	100%	3

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below:

	2019	2019
Cash, excluding cash on hand – note 4	<b>₱9,174,787</b>	₱5,091,824
Trade and other receivables, at net amount - note 5	<b>42,751,394</b>	53,834,433
Installment contract receivable	-	57,316,896
Advances to related parties, at net amount - note 17	<b>28,507,746</b>	46,805,365
	<b>₱80,433,927</b>	₱163,048,518

The aging of financial assets is shown below:

June 2020	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	<b>₱9,174,787</b>	₱-	₱-	₱-	₱-	<b>₱9,174,787</b>
Trade and other receivables	<b>42,751,394</b>	-	-	-	<b>90,670,276</b>	<b>133,421,670</b>
Installment contract receivable	-	-	-	-	-	-
Advances to related parties	-	-	-	<b>28,507,746</b>	<b>135,461,784</b>	<b>163,969,530</b>
	<b>₱51,926,181</b>	₱-	₱-	<b>₱28,507,746</b>	<b>₱226,132,060</b>	<b>₱306,565,987</b>

June 2019	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	₱5,091,824	₱-	₱-	₱-	₱-	₱5,091,824
Trade and other receivables	53,834,433	-	-	-	71,729,232	125,563,665
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	46,805,365	121,182,068	167,987,433
	₱116,243,153	₱-	₱-	₱46,805,365	₱192,911,300	₱355,959,818

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash as described below.

*(a) Cash*

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱500,000 for every depositor per banking institution.

*(b) Trade and other receivables and advances to related parties*

Trade and other receivables

Credit risk arising from rental income from leasing of buildings is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants.

For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analysed on a continuous basis to minimize credit risk associated with these receivables.

Advances to related parties

For advances to related parties, the Group has applied the general approach to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

To measure the ECL, trade and other receivables, and advances to related parties have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade and other receivables, and advances to related parties are a reasonable approximation of the loss rates for the financial assets. The expected loss rates are based on the payment profiles of trade and other receivables, and advances to related parties over a period of sixty (60) months before December 31, 2018 and January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the third parties and related parties to settle the receivables.

Trade and other receivables, and advances to related parties are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and if past due for more than five (5) years.

*(c) Installment contract receivable*

The Group reviews compliance by the debtor to agreement and takes into consideration the financial position of the debtor. The Group continuously assesses the compliance of both parties to the covenants attached to the Contract to Sell. The identified impairment loss on installment contract receivable is immaterial, hence no ECL is recognized.

The management continues to review trade and other receivables and advances to related parties for

any legally enforceable right to offset with liabilities with the expressed intention of the borrower to settle on a net basis.

Impaired accounts represent account of third parties and related parties that have not paid for a long time and for which the Group believes that a portion of the receivables may not be collected. The allowance is estimated based on the Group's estimate for accounts which it believes may no longer be collected.

#### Price risk

The Group is exposed to price risk on the fluctuation on the price or fair value of AFS financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of AFS financial assets is based on published prices in the market.

If the price of the AFS financial assets had been 10% higher/lower the net income before tax for the year ended June 30, 2020 and 2019 would decrease/increase by ₱1,250,000 and decrease/increase by ₱1,250,000, respectively.

#### Liquidity risk

The Group's policy is to maintain a balance between continuity of funding through cash advances from related parties.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table below has been drawn up based on undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay.

June 2020	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
<b>Accounts payable and other liabilities – excluding government liabilities</b>	₱-	₱6,160,019	₱-	₱6,160,019
<b>Advances from related parties</b>	486,521,870	-	-	486,521,870
<b>Advances from lessees</b>	-	6,221,556	-	6,221,556
	<b>₱486,521,870</b>	<b>₱12,381,575</b>	<b>₱-</b>	<b>₱498,903,445</b>

June 2019	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities – excluding government liabilities	₱-	₱6,313,201	₱-	₱6,313,201
Advances from related parties	467,077,073	-	-	467,077,073
Advances from lessees	-	5,840,364	-	5,840,364
	<b>₱467,077,073</b>	<b>₱12,153,566</b>	<b>₱-</b>	<b>₱479,230,638</b>

Substantial portion of the Group's financial liabilities consist of advances from related parties. There are no specific terms of advances agreed with the related parties. The Group does not expect to pay its liabilities nor expect related parties to collect within twelve (12) months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

#### **24. CAPITAL RISK MANAGEMENT**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for stockholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as share capital and deficit for the purpose of capital management.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including accounts payables and other liabilities, advances from related parties as shown in the consolidated statements of financial position) less cash. Total capital is calculated as Equity as shown in the consolidated statement of financial position plus Net debt.

Gearing ratio compares some form of owner's equity to borrowed funds. It is a measure of financial leverage demonstrating the degree to which the Group's activities are funded by owner's funds versus creditor's fund.

During the second quarter of 2020, the Group's strategy, which was unchanged from 2019, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at June 30 were as follows:

	2020	2019
Accounts payable and other liabilities	₱7,169,679	₱12,821,288
Advances from lessees	6,221,556	5,840,364
Advances from related parties	486,521,870	467,077,073
Retirement benefits obligation	708,900	667,200
Borrowings	-	-
Gross debt	500,622,005	486,405,925
Cash	(9,194,787)	(5,111,824)
Net debt	491,427,218	481,294,101
Total equity	1,168,399,322	1,207,690,769
Total capital	₱1,659,826,539	₱1,688,984,870
Gearing ratio	29.61%	28.50%

The status of the Group's operation and management plan is fully disclosed in Note 1.

The Parent Company is subject to externally imposed capital requirement amounting to ₱6,250,000 which is the minimum paid-up capital requirement of SEC for mining companies. As at June 30, 2020 and 2019, the Parent Company is in compliance with this externally imposed capital requirement.

On the other hand, the Parent Company's subsidiaries are not subject to any externally imposed capital requirements.

## 25. FINANCIAL INFORMATION

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statement of financial position are shown below:

	30 Jun 20		30 Jun 19	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets classified as loans and receivables</b>				
Cash, excluding cash on hand	₱9,174,787	₱9,174,787	₱5,091,824	₱5,091,824
Trade and other receivables	42,751,394	42,751,394	53,834,433	53,834,433
Installment contract receivable	57,316,896	57,316,896	57,316,896	57,316,896
Advances to related parties	28,507,746	28,507,746	46,805,365	46,805,365
	₱137,750,823	₱137,750,823	₱163,048,518	₱163,048,518

	30 Jun 20		30 Jun 19	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities classified as other financial liabilities</b>				
Accounts payable and other liabilities - excluding government liabilities	₱6,160,019	₱6,160,019	₱6,313,201	₱6,313,201
Advances from related parties	486,521,870	486,521,870	467,077,073	467,077,073
Advances from lessees	6,221,556	6,221,556	5,840,364	5,840,364

The methods and assumptions used by the Group in estimating the fair value of the financial instruments is as follows:

- (a) The fair values of advances to related parties and advances from related parties are determined based on the discounted value of future cash flows using the prevailing PH BVAL rates that are specific to the tenor of the instruments' cash flow as at reporting date. Discount rates used is 3.42% in 2019 and 6.78% in 2018.
- (b) The fair value was determined by reference to market transactions on arm's length terms using the cost and market data or direct sales comparison approach at the time of appraisal.

The fair value of cash, trade and other receivables, instalment contract receivable, accounts payable and other liabilities, lease liability and advances from lessee's approximate carrying value due to relatively short-term maturities.

## **26. RECLASSIFICATION**

Certain accounts in 2020 consolidated financial statements were reclassified to conform to the current year's presentation.

\* \* \*

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX A – FINANCIAL SOUNDNESS**

	30 Jun 2020	30 Jun 2019	30 Jun 218
<b>Profitability ratios:</b>			
Return on assets	Nil	Nil	Nil
Return on equity	Nil	Nil	Nil
Net profit margin	Nil	Nil	Nil
Gross profit margin	0.53	0.57	0.35
<b>Solvency and liquidity ratios:</b>			
Current ratio	9.31	10.32	8.95
Debt to equity ratio	0.43	0.40	0.40
<b>Financial leverage ratios:</b>			
Asset to equity ratio	1.43	1.40	1.40
Debt to asset ratio	0.30	0.29	0.29
Interest rate coverage ratio	Nil	Nil	Nil

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX B – ACCOUNTS RECEIVABLE AGING**  
**June 30, 2020**

	Current	1-30 days	31-60 days	Over 60 days	Total
Advances to third parties	₱-	₱-	₱-	₱114,789,002	₱114,789,002
Receivable from related parties	-	-	-	11,215,841	11,215,841
Rental receivable	2,251,224	1,743,308	1,544,632	1,304,124	6,843,287
Utilities receivable	171,546	163,493	34,545	47,374	416,958
Others	-	-	-	156,581	156,581
Subtotal	₱2,422,770	₱1,906,801	₱1,579,177	₱127,512,922	133,421,670
Impairment - Advances to affiliates					
Allowance for doubtful accounts					(90,670,276)
Accounts receivable					₱42,751,394

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasig City on \_\_\_\_\_.

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

Registrant: **KENNETH T. GATCHALIAN**  
Title: **President**  
Signature: \_\_\_\_\_

Registrant: **ATTY. MARIEL L. FRANCISCO**  
Title: **Corporate Secretary**  
Signature: \_\_\_\_\_

Registrant: **RICHARD L. RICARDO**  
Title: **Treasurer**  
Signature: \_\_\_\_\_

**SUBSCRIBED AND SWORN** to before me this 14 day of AUGUST, 2020, in CITY OF MANILA, affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS	TAX IDENTIFICATION NO.
1. Kenneth T. Gatchalian	167-406-526
2. Atty. Mariel L. Francisco	224-150-060
3. Richard L. Ricardo	140-853-860

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Series of: 11

**ATTY. HENRY D. ADASA**  
NOTARY PUBLIC, UNTIL FEB. 31, 2020  
NOTARIAL COMMISSION 2020-162 MLA  
IBP NO. 180920 - 01/03/2020, PASIG  
PTR NO. 9124087 - 01/03/2020 MLA  
ROY. NO. 29679, TIN: 172-528-620  
MEEB COMPL. NO. VII-0000165