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(Company's Full Name)

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

Atty. Mariel L. Francisco																													
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Contact Person

(632) 706-7888																													
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2 nd Monday of June

Fiscal Year

FORM TYPE

Month Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

1,005

Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

Cashier

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

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the Annual Stockholders Meeting of Wellex Industries, INC. will be held at One Café and Events Place 6th Floor, One Corporate Center Pasig City, on Friday, 26 October 2018 at 3:00 p.m., with the following Agenda:

1. Call to Order
2. Certification of Notice and determination of Quorum
3. Approval of Minutes of Previous Meeting
4. Approval of Annual Report for the year ended December 31, 2017
5. Ratification of acts of the Board and Management
6. Election of Directors
7. Election of External Auditor
8. Election of External Counsel
9. Other matters
10. Adjournment

Only stockholders of record as at the close of business on 28 September 2018 are entitled to notice, and to vote at the meeting. The Stock and Transfer Books of the Corporation will be closed from 1 October 2018 to 26 October 2018. Please bring this notice and any form of identification such as driver's license, TIN card, passport, etc. to facilitate registration.

You may attend in person or through your authorized representative with the execution of a proxy. Deadline for submission of proxies is on 2 October 2018. Please note that the Corporation is not soliciting proxies.

Thank you.


MARIEL L. FRANCISCO
Corporate Secretary

Unit 3104, 31st Floor
Antel Global Corporate Center
#3 Julia Vargas Avenue
Ortigas Center, Pasig City

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the enclosed proxy form and submit the same on or before 2 October 2018 to the Office of the Corporate Secretary at Unit 3104 31st Floor, Antel Global Corporate Center, J. Vargas Avenue, Ortigas Center, Pasig City. Thank you.

PROXY

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, stockholder of **WELLEX INDUSTRIES, INC.**, do hereby constitute and appoint _____ as my attorney-in-fact and proxy, to attend and represent me at the Annual Stockholders Meeting of **WELLEX INDUSTRIES, INC.** on **26 October 2018**, and thereat to vote upon _____ shares of stock owned by me on the following agenda items as I have indicated below and any and all business that may come before said meeting. 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 of Previous Meeting			
4	• Approval of Annual Report			
5	• Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.			
6	Election of Directors *All nominees listed below Peter S. Salud William T. Gatchalian Kenneth T. Gatchalian Elvira A. Ting Lamberto B. Mercado, Jr. Richard L. Ricardo James Palit-ang Omar M. Guinomla Byoung Hyun Suh (Independent) Sergio R. Ortiz-Luis, Jr. (Independent) Ruben D. Torres (Independent Director) <i>Note:</i> <i>To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.</i>	FOR ALL*	WITHHOLD FOR ALL*	EXCEPTION
7	• Appointment of Diaz Murillo Dalupan and Co. as external auditor			
8	• Appointment of Corporate Counsels, Phils. Law Offices as external legal counsel			
9	• At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the Meeting.			

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE OCTOBER 2, 2018, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY 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.

IN WITNESS WHEREOF, the undersigned has executed this PROXY this ____ of _____ 2018 in _____.

Name and Signature of Stockholder/Authorized Representative

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: **35th Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City**
Postal Code: **1605**
7. Registrant's telephone number, including area code: **(632) 706-7888**
8. Date, time and place of the annual stockholders' meeting:
**October 26, 2018 at 3:00 P.M.,
One Café and Events Place
6th Floor One Corporate Centre
Doña Julia Vargas Ave. cor. Meralco Ave.,
Ortigas Center, Pasig City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **October 5, 2018**
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):

Title of Each Class

Common Shares- P1.00 par value

Number of Shares of Common Stock

Outstanding or Amount of Debt Outstanding
Issued and Outstanding - 3,271,938,180

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

Yes X

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 26, 2018
3:00 P.M.
One Café and Events Place
6th Flr. One Corporate Center
Doña Julia Vargas cor. Meralco Ave.,
Ortigas Center, Pasig City**

Complete Registrant's Mailing Address: **35th 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 and given to the security holders shall be on: **October 5, 2018**

Item 2. Dissenters' Right of Appraisal

Under Section 81 and 42 of the Corporation Code, stockholders who dissent to certain corporate actions are given the right of appraisal. Among others, appraisal rights are available to dissenters in case the corporation invests its funds in another corporation or business for any purpose other than its primary purpose. The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a demand on the corporation within thirty (30) days after the date on which the vote was taken for the payment of the fair value of his shares.

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, 2018:

	Shares Outstanding	No. of Vote Each Share is Entitled
Common Shares:		
Filipino	3,231,180,403	One (1) vote per share
Foreigner	40,757,777	One (1) vote per share
Total	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, 2018. Every stockholder shall be entitled to one vote for each share of stock held as of record date September 28, 2018.

(b) Out of the total outstanding shares of 3,271,938,180 as of August 31, 2018, number of shares of Common Stock owned by foreigners was 40,757,777 or 1.2457%. Each share is entitled to one vote as of the established record date.

Record Date:

(c) All stockholders of record as of **September 28, 2018** 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 24 of the Corporation Code. 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, 2018 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	904,306,803	27.638
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 2, 2018, the deadline for submission of proxies. PCD is not related to Wellex Industries, Inc.

(2) Security Ownership of Management (As of August 31, 2018)

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
All directors and officers as a group		1,047,476,978		32.013

(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 45 to 48 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:

	Name	Position	Age	Citizenship
1.	Peter S. Salud	Chairman	64	Filipino
2.	Kenneth T. Gatchalian	President/CEO	42	Filipino
3.	Elvira A. Ting	Vice President	57	Filipino
4.	Richard L. Ricardo	Treasurer	55	Filipino
5.	William T. Gatchalian	Director	69	Filipino
6.	Lamberto B. Mercado Jr.	Director	53	Filipino
7.	James B. Palit-Ang	Director	54	Filipino
8.	Omar M. Guinomla	Director	46	Filipino
9.	Ruben D. Torres	Independent Director	77	Filipino
10.	Byoung Hyun Suh	Independent Director	61	Korean
11.	Sergio R. Ortiz-Luis, Jr.	Independent Director	75	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 45 to 48 of Management Report. The independent directors, Mr. Byoung Hyun Suh, Mr. Sergio R. Ortiz-Luis, Jr., Atty. Ruben D. Torres will be serving their 5th, 2nd year and 1 year and 4th month, 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/Independent Director

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

Other than its current officers mentioned in the preceding subsection, the Company has not engaged the services of any person who is expected to make significant contribution to the business of the Corporation.

Family Relationships

Kenneth T. Gatchalian, the President/Director is the son of William T. Gatchalian, one of the Directors. Ms. Elvira A. Ting, the Vice-President, is sister-in-law of William T. Gatchalian and aunt of Kenneth T. Gatchalian. Except for the above mentioned, there are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, persons nominated or chosen by the corporation to become directors, or executive officers.

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, 2017 and 2016. Please refer to Note 19 of the Audited Consolidated Financial Statements attached to this report for the broad discussions.

	Increase/ (Decrease) (%)	2017		2016	
		Receivables	Payables	Receivables	Payables
The Wellex Group, Inc.	(19.62%)	₱64,254,759	₱ –	₱79,938,363	₱ –
Wellex Petroleum, Inc.	–	–	–	–	–
Metro Alliance Holdings & Equities Corp.	–	105,060,000	–	105,060,000	–
Diamond Stainless Corporation	–	–	132,846,223	–	132,846,223
Kenstar Industrial Corporation	–	–	23,539,858	–	23,539,858
Rexlon Realty Corporation	–	–	23,187,370	–	23,187,370
Philippine Estates Corporation	3.84%	–	29,923,261	–	28,815,430
Plastic City Corporation	0.35%	–	86,916,104	–	86,916,104
Pacific Rehouse Corporation	–	–	15,540,753	–	15,540,753
International Polymer Corporation	–	–	24,655,300	–	24,655,300
Asian Pacific Corporation	–	–	–	–	–
Ropeman International Corp.	–	–	3,202,528	–	3,202,528
Concept Moulding Corp.	(13.70)%	3,743,894	–	4,338,061	–
Continental Wire and Cable Corp.	–	–	–	–	–
Key management and officers	–	–	158,118,794	–	158,118,794
		173,058,653	496,822,360	189,336,424	496,822,360
Allowance for doubtful accounts		(58,205,806)	-	(58,205,806)	-
		₱114,852,847	₱497,930,191	₱131,130,618	₱496,822,360

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 two companies, namely Plastic City Industrial Corporation (PCIC) and Philfoods Asia, Inc. (Note: Philfoods was sold to other company last February 10, 2016). Both subsidiaries have ceased operations but PCIC subsidiaries 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 2018. 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 meetings 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 & Position	Year	Salary (in Php)	Other Variable Pay (in Php)
Peter S. Salud Chairman/Director	2018	-	50,000
	2017	-	-
	2016	-	-
Kenneth T. Gatchalian President/CEO/Director	2018	-	50,000
	2017	-	50,000
	2016	-	50,000
Elvira A. Ting Vice President/Director	2018	-	50,000
	2017	-	50,000
	2016	-	50,000
Richard L. Ricardo Treasurer/Director	2018	-	50,000
	2017	-	50,000
	2016	-	50,000
All other officers & directors as a Group Unnamed	2018	-	50,000
	2017	-	50,000
	2016	-	50,000

The Compensation Committee prescribed only the above compensation for the specified officers and directors for year 2018.

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/Independent Director

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.

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 and Ms. Elvira A. Ting and Mr. Kenneth T. Gatchalian as members, was re-appointed by the stockholders as the principal external auditors for the years 2016 and 2015, and is again being recommended to the stockholders for re-election as the Company's principal external auditors for the year 2017. 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 SRC 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. A two-year cooling off period will be observed in the re-engagement of the same signing partner. Ms. Jocelyn J. Villaflores was the lead engagement partner from 2005 to 2008, Ms. Rosemary D. De Mesa in 2009 to 2013 and Mr. Jozel Francisco C. Santos for the year 2014 and 2015. In 2016, after the cooling off period, Ms. Rosemary D. De Mesa was again the lead engagement partner and will be recommended as engagement partner for the year 2018 as well.
- 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/Independent Director
 2. Elvira A. Ting - Member
 3. Kenneth T. Gatchalian – Member

External Audit Fees And Services

Audit and related fees of Diaz Murillo Dalupan and Company, for Wellex Industries Inc. and Subsidiaries is ₱1,490,720 and ₱1,478,400 for the years 2017 and 2016, inclusive of 10% out-of-pocket-expenses and 12% VAT, for expressing an opinion on the financial statements and assistance in preparing the annual income tax return.

No other service such as tax and assurance audit was provided by external auditors to the Company for the calendar year 2017 and 2016.

Audit Committee's 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.

Item 9. Financial and Other Information

Audited Financial Statements as of 31 December 2017, 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 10. 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 11. 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 12. 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.

OTHER MATTERS**Item 13. Action with Respect to Reports**

- a. The Annual Report and Audited Financial Statements for the year ended December 31, 2017 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 November 14, 2017 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 November 14, 2017 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.

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

September 18, 2017

Setting the date of the annual stockholders' meeting on November 14, 2017 at 10:30 in the morning at One Café and Events Place, 6th Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City. The Board also set October 19, 2017 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.

November 14, 2017

Annual stockholders' meeting for 2017 agenda of which includes:

- a) Approval of minutes of 2016 stockholders' meeting
- b) Election of members of the board of directors for the year 2017-2018
- c) Approval of 2016 Audited Financial Statements
- d) Appointment of External Auditors
- e) Appointment of External Counsels

March 26, 2018

Approval and authorize to issue the audited financial statements and independent auditor's report for the year ended December 31, 2017 on which Diaz Murillo Dalupan and Company, the external auditors of the Corporation, rendered an unqualified audit opinion.

July 18, 2018

Approval of the appointment of new Independent Director Atty. Ruben D. Torres and Mr. Peter S. Salud as Chairman of the Board of Directors.

August 28, 2018

Setting the date of the annual stockholders' meeting on October 26, 2018 at 3:00 in the afternoon at One Café and Events Place, 6th 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.

Item 14. 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 15. 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 16. 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 November 14, 2017;
- 2) Audited Financial Statements for the year ended December 31, 2017;
- 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 person 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 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. 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 cast 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.

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.

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. 35th Floor, One Corporate Centre 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 11, 2018.

Wellex Industries, Inc.

For:



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:

1. I am an independent director of **Wellex Industries, Inc.** and have been its independent director since 2016.
2. 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	Honorary Chairman/Treasurer	2007 - present
Waterfront Phils., Inc.	Independent Director	2005 – present
PhilExport	President/CEO	2008 - present
ECOP	Past President and Honorary Chairman	2010 - present
Philippine Estates Corporation	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.	Director	2017
Int'l Chamber of Commerce of the Phils	Founding Director	Present
Manila Exposition Complex, Inc. (WTC)	Director	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 _____ day _____, at _____.

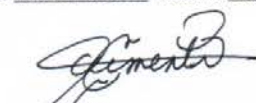

SERGIO R. ORTIZ-LUIS, JR.
 Affiant

10 SEP 2018

Pasig City

SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, affiant personally appeared before me and exhibited to me his TIN: 107-846-672 issued at Bureau of Internal Revenue.

Doc. No. 118
 Page No. 05
 Book No. 2
 Series of 2018.


Atty. Lady Mae A. Clemente
 PTR No. 3983436; 1-24-18 Pasig
 IBP Membership No. 029705; RSM
 Roll No. 69675
 MCLE Compliance No. VI-0003249
 Appointment No. 207 (2017-2018)
 35th Floor One Corporate Centre,
 Julian Vargas Avenue corner Meralco Avenue,
 Ortigas Center, Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

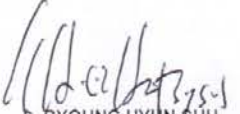
I, **Byoung Hyun Suh**, Korean, of legal age and a resident of Unit 2006B The Salcedo Place, Tordesillas St., Salcedo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that;

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 - present
Philippine Estates Corporation	Independent Director	2016 - present
Metro Alliance Holdings & Equities Corp	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 _____ day _____, at _____

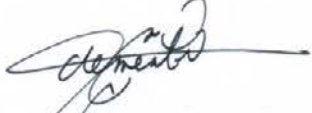

BYOUNG HYUN SUH
 Affiant

10 SEP 2018

Pasig City

SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____
 affiant personally appeared before me and exhibited to me his TIN NO: 122-963-522 issued at Bureau of Internal Revenue

Doc. No. 114
 Page No. 24
 Book No. 2
 Series of 2018:


Atty. Lady Mae A. Clemente
 PTR No. 3983436; 1-24-18 Pasig
 IBP Membership No. 029705; RSM
 Roll No. 69675
 MCLE Compliance No VI-0003249
 Appointment No. 207 (2017-2018)
 35th Floor One Corporate Centre,
 Julian Vargas Avenue corner Meralco Avenue,
 Ortigas Center, Pasig City

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:

1. I am a nominee for independent director of **WELLEX INDUSTRIES, INC.**
2. 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.	Director	2006 - present
Acesite Philippines Hotel Corp.	Director	2014 - 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 _____ day _____, at _____


RUBEN D. TORRES
 Affiant

10 SEP 2018

SUBSCRIBED AND SWORN to before me this _____ day of _____ at **Pasig City**
 affiant personally appeared before me and exhibited to me his TIN NO: 135-071-068

Doc. No. 114
 Page No. 25
 Book No. 2
 Series of 2018:


Atty. Lady Mae A. Clemente
 PTR No. 3983436; I-24-18 Pasig
 IBP Membership No. 029705; RSM
 Roll No. 69675
 MCLE Compliance No. VI-0003249
 Appointment No. 207 (2017-2018)
 35th Floor One Corporate Centre,
 Julian Vargas Avenue corner Meralco Avenue,
 Ortigas Center, Pasig City

CERTIFICATION

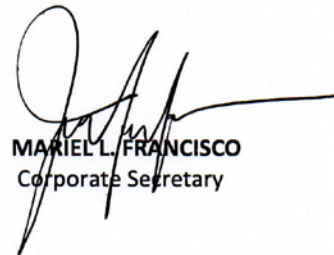
I, MARIEL L. FRANCISCO, of legal age and with office address at Unit 3104 Antel Global Corporate Center, #3 Doña Julia Vargas Avenue, Ortigas Center, Pasig City, after being duly sworn to in accordance with law, do hereby certify:

I am the duly elected Corporate Secretary of WELLEX INDUSTRIES, INC., a corporation duly organized and existing under Philippine laws with principal office at 35th Floor, One Corporate Center, J. 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.

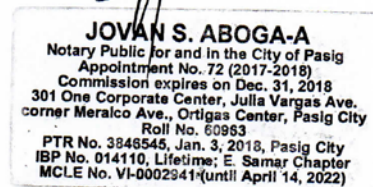
IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of September 2018 in the City of Pasig.


MARIEL L. FRANCISCO
Corporate Secretary

Subscribed and sworn to before me this SEP 05 2018 at PASIG CITY, affiant exhibiting to me his TIN with No. 224-150-060.



Doc. No. 338;
Page No. 69;
Book No. 5;
Series of 2018.





**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

06 October 2017

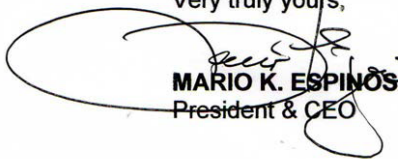
ATTY. LAMBERTO B. MERCADO JR.
Board of Directors Member
PNCC

Subject: **PERMISSION TO OCCUPY MEMBERSHIP
IN THE BOARD OF DIRECTORS**

Dear Atty Mercado:

Anent your request for written permission in occupying membership in the board of directors of other corporations, authority is granted upon you to engage as such director, provided that such engagement does not conflict with your official function as member of the PNCC Board.

Very truly yours,


MARIO K. ESPINOSA
President & CEO

MANAGEMENT REPORT

AS REQUIRED BY SRC RULE 20 INCLUDING FINANCIAL INFORMATION FOR SECOND QUARTER OF 2018

BUSINESS AND GENERAL INFORMATION

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

Wellex Industries, Incorporated (WIN) is a company incorporated in the Philippines to engage primarily in the business of mining and oil exploration and was known as Republic Resources and Development Corporation (REDECO). The Company's corporate life officially ended on October 19, 2006. On January 19, 2006, the Company's Board of Directors (BOD) and stockholders approved the amendment of the Company Articles of Incorporation extending the corporate life for another 50 years up to October 19, 2056. The Company's Amended Articles of Incorporation was approved by the Securities and Exchange Commission (SEC) on July 20, 2007.

On January 28, 2008, the BOD approved the amendment of the Company's primary purpose from a holding company to a company engaged in the business of mining and oil exploration. The same was approved by the stockholders of the Company last November 20, 2008 during the annual Stockholders' Meeting. The Company's Amended Articles of Incorporation was approved by the Securities and Exchange Commission (SEC) on April 3, 2009.

The shares of WIN are listed and traded in the Philippine Stocks Exchange or PSE. The Company wholly owns two companies as of December 31, 2015, namely Plastic City Industrial Corporation (PCIC) and Philfoods Asia, Inc. (collectively known as the Group.) Both subsidiaries have ceased operation but PCIC subsidiaries continue to earn income by leasing out its warehouse facilities.

On February 10, 2016, the Parent Company sold its whole interest on Philfoods to Chesa Holdings, Inc. at ₱5 per share for a total purchase price of ₱6,249,996. The Parent Company incurred loss on the sale of this investment amounting to ₱6,249,997.

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 where 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 50-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.

Philfoods Asia, Inc.

Philfoods Asia, Inc., was established to become a major processor and producer of packaged beverages and foodstuffs. Based in Valenzuela, Metro Manila, the plant's capabilities cover a wide array of items, which include bottled drinking water, fruit juices, powdered juices, and cereal-based products such as biscuits, instant noodles, and other snack foods.

All plant equipment have been procured and installed for its programmed commercial operation. However because of the continuing adverse condition of the Philippine economy the management decided to postpone its operation.

Plastic City Industrial Corporation (PCIC) and Philfoods Asia, Inc. have decided to temporarily cease its manufacturing and commercial operations. The continued losses and cessation of operations were due mainly to scarcity of raw materials, increase in production costs in electricity, power and raw

materials coupled with keen competition brought about the influx of imported goods. Due to the cessation of operations, the Group is now concentrating in leasing out its warehouse facilities.

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, January 1, 2017	₱919,365,980	₱–	₱61,742,539	₱981,108,519
Additions	–			
Disposals	–			
Other Movements	–			
Depreciation	–	–	(1,577,974)	(1,577,974)
Net carrying amounts, December 31, 2017	₱919,365,980	₱–	₱60,164,565	₱979,530,545

Included in the Land are four (4) properties of Parent Company located in Rodriguez (formerly Montalban), Rizal. These 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

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.)
Inland Container Corp.		
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	2,800.5
	V-13207	3,400
	V-13208	3,537
	V-19369	3,400
	T-100259	11,850
	T-100258	11,805
Pacific Plastic Corp.		
Valenzuela	T-123321	5,598
	T-95577	30,987
	T-111339 *	8,600
	T-112620	7,841
	T-122995	195
	T-109519*	469

Kennex Container Corp. 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
Rexlon Industries Corp. 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

**Lots previously mortgaged to PNB. The Group entered into a Settlement Agreement with PNB to pay P950 million last March 20, 2018. Upon payment, PNB will release the titles and issue the corresponding Cancellation of Mortgage. On the same date, the Group paid PNB P850 million and P100 million thirty (30) days after.*

Interest in Joint Operation

The Group's investment in joint venture represents land contributed to the 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 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:

	2017	2016
Cost		
Balance at beginning of year	₱ 590,214,111	₱ 590,214,111
Disposal	—	—
Balance at end of year	590,214,111	590,214,111
Accumulated impairment loss		
At beginning of year	47,641,000	47,641,000
Reversal of impairment loss	—	—
At end of year	47,641,000	47,641,000
Net carrying amounts, December 31	₱542,573,111	₱542,573,111

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.

The Group recognized revenue amounting to ₱1,590,690 representing its share in the sale of joint venture lots in 2015. As at December 31, 2017 and 2016 outstanding receivable from PHES amounted to ₱10,897,335 and ₱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 2017.

Property, Plant and Equipment

Details of the Group's property, plant and equipment as at December 31, 2017 are as follows:

	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Total
Cost					
At beginning of year	800,000	547,522,657	8,203,282	8,828,122	565,354,061
Other movements					
Balance at 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	439,228,176	8,017,766	8,815,423	456,861,365
Depreciation		12,988,583	185,516	7,619	13,181,718
Other movements					
Balance at end of year	800,000	452,216,759	8,203,282	8,823,042	470,043,083
Impairment loss					
Balance at beginning	-	80,120,199	-	-	80,120,199
Other movements					
Balance at end of year	-	80,120,199	-	-	80,120,199
Net carrying amount, December 31, 2017	-	15,185,699	-	5,080	15,190,779

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

PVC	55 mm YEI – 2 55 mm YEI – 3 55 mm YEI – 4 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 - 2 Bekum - 3 Bekum - 4 Bekum - 5 Tahara - 1 Tahara - 2 Tahara - 3 Tahara - 4 Ardor Fongkee 55 - 1 65 - 1
Injection Moulding Plant			
Section	Machine	Section	Machine
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
		PET	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
		Thermoforming Plant	
		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 – Dipiemme T2 – Dipiemme T3 – Illig T4 – Illig T5 – Illig T6 – Illig T7 – Illig T8 – Illig T9 – Illig V1 – Taiwan

Rimming	R1 – Dipiemme R2 – Illig R3 – Dipiemme	Printing	P1 – Moss P2 – Omsa P3 – Osmo
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Buildings and Leasehold Improvements

Since the company stopped the operation and focused in leasing the warehouses here are the lists of lessees as of December 31, 2017:

No.	Name of Lessee	Co.	Area in sqm	Contract Period	Rental Income
1	SMYPC - MANILA GLASS PLANT - Bldg 22-A	ICC	1,134	09/12/16-12/31/17	243,005
2	SMYPC - MANILA GLASS PLANT - Bldg 22-B	ICC	1,134	09/05/16-12/31/17	243,005
3	SMYPC - MANILA PLASTIC PLANT - Bldg 30	ICC	2,200	10/01/16-12/31/17	471,438
4	SMYPC - MANILA PLASTIC PLANT - Bldg 32	ICC	3,052	09/05/16-06/05/18	654,013
5	SMYPC - MANILA PLASTIC PLANT - Bldg 33	ICC	2,900	09/14/16-06/14/18	621,441
6	SMYPC - MANILA PLASTIC PLANT - Bldg 34 Open	ICC	2,000	10/08/17-04/07/18	300,000
7	SMYPC - MANILA PLASTIC PLANT - Bldg 34 Open	ICC	3,000	11/16/17-05/15/18	300,000
8	Sta Rita 168 Builders Corp. - Bldg 15	KCC	1,100	10/01/16-12/31/17	231,000
9	Carter Industrial Corp. - Bldg 42	KCC	1,980	10/01/16-12/31/17	326,700
10	Ramosco Logistics Inc. - Office	KCC		03/01/17-02/28/18	45,000
11	San Miguel Brewery Inc.- Bldg 23	PPC	3,105	10/01/16-04/30/18	665,357
12	San Miguel Brewery Inc.- Shipping Yard	PPC	1,430	10/01/16-04/30/18	191,518
13	San Miguel Brewery, Inc - Bldg 24	PPC	1,476	10/01/16-03/31/18	316,286
14	SAN MIGUEL BREWERY, INC - Bldg 25 Open Yard	PPC	1,500	10/01/16-03/31/18	200,893
15	BIG THUMB ENTERPRISES-Bldg 23 Open Space	PPC	35	10/01/16-12/31/17	9,000
16	Goeng Marketing - Bldg 26	PPC	524	10/01/16-12/31/17	86,664
17	FUDSOURCE CORPORATION - Bldg 19	PPC	1,050	01/15/17-01/14/18	189,000
18	RBSB ENTERPRISES-Bldg 28	PPC	300	11/15/17-11/14/18	44,211

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 is managed on a Group basis. Credit risk arises from cash, trade and other receivables, installment contract receivable and advances to related parties.

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 (with trade and other receivables and advances to related parties presented gross of allowance for doubtful accounts), as summarized below:

	2017	2016
Cash, excluding cash on hand	₱ 2,409,039	₱ 3,732,995
Trade and other receivables, at net amount	70,276,179	72,036,147
Installment contract receivable	57,316,896	57,316,896
Advances to related parties, at net amount	114,852,847	131,130,618
	₱ 244,854,961	₱ 264,216,656

The credit quality of financial assets is discussed below:

Cash in bank

The Group deposits its cash balance in a commercial and universal bank to minimize credit risk exposure.

Trade and other receivables

The Group assesses credit risk on trade accounts receivable for indicators of impairment by reviewing the age of accounts. Allowance for doubtful accounts had been provided to cover uncollectible balance. The Group does not hold any collateral as security for these 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 Company has no experience of default payments from the lessees. Consequently, the Company categorized its trade and other receivables as high grade quality.

Advances to related parties

As at December 31, 2017 and 2016, the Group classifies advances to related parties as past due but not impaired with exception on certain advances, which the Group has determined to be past due and impaired and sufficient allowance for doubtful accounts has been provided.

Advances to related parties generally have no specific credit terms. The Group does not hold any collateral as security on these receivables.

The management continues to review 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. The Group also has entered into agreements with related parties for the settlement of advances. Further, the Group has identified real properties owned by related parties which can be used to settle the outstanding advances.

The aging and quality of financial assets is shown below:

December 31, 2017	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	2,409,039	₱ –	₱ –	₱ –	₱ –	2,409,039
Receivables from:						
Trade	3,056,377	–	–	–	–	3,056,377
Related parties	11,215,841	–	–	–	–	11,215,841
Third parties	55,710,527	–	–	–	58,077,198	113,787,725
Others	293,434	–	–	–	–	293,434
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	114,852,847	58,205,806	173,058,653
Total	₱130,002,014	₱ –	₱ –	₱ 114,852,847	₱116,283,004	₱361,137,965

December 31, 2016	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	3,732,995	₱ –	₱ –	₱ –	₱ –	₱ 3,732,995
Receivables from:						
Trade	1,948,875	–	–	–	–	1,948,875
Related parties	11,215,841	–	–	–	–	11,215,841
Third parties	58,602,793	–	–	–	58,077,198	116,679,991
Others	268,638	–	–	–	–	268,638
Installment contract receivable	57,316,896	–	–	–	–	57,316,896

Advances to related parties	–	–	–	131,130,618	58,205,806	189,336,424
Total	₱133,086,038	₱ –	₱ –	₱ 131,130,618	₱110,874,045	₱380,499,660

Certain advances to related parties were assessed to be impaired and allowance for doubtful accounts amounting to ₱116,283,004 and ₱ 110,874,045 as at December 31, 2017 and 2016, has been provided, respectively.

b) 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, 2017	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities	₱ –	₱ 4,209,445	₱ –	₱ 4,209,445
Advances from related parties	497,930,191	–	–	497,930,191
Advances from lessees	–	2,897,013	–	2,897,013
Borrowings	–	–	–	–
	₱497,930,191	₱7,106,458	₱ –	₱505,036,649

December 31, 2016	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities	₱ –	₱ 8,247,910	₱ –	₱ 8,247,910
Advances from related parties	496,822,360	–	–	496,822,360
Advances from lessees	–	2,574,795	–	2,574,795
Borrowings	–	159,619	–	159,619
	₱496,822,360	₱10,982,324	₱ –	₱507,804,684

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.

4.) Legal Proceedings

On October 28, 2010, PCIC subsidiaries, namely Inland Container Corp., Pacific Plastic Corp. and Kennex Container Corp., together with certain affiliates (the "Petitioners") filed a petition for corporate rehabilitation (the "Plan") before the Regional Trial Court of Valenzuela (the "Court") by authority 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.

The Plan will be implemented over a span of five (5) years, with the Petitioners to expect gross income projection of P4.214 million from 2011 to 2015, assuming the Plan was immediately approved. The Plan entails the following: (a) capital restructuring; (b) debt restructuring; (c) reconditioning of machinery and equipment; (d) implementation of sales plan; and (e) joint venture for the real estate conversion from industrial to commercial and residential.

The Petitioner's properties were subjected to foreclosure sale on November 5, 2010, but were suspended due to the issuance by the Court of "Stay Order" dated November 2, 2010 which among others, appointment by the Court of a Receiver and setting the initial hearing on the petition on December 14, 2010 whereby all creditors, the Bank and the related party creditors, were allowed to submit their comments on the corporate rehabilitation.

On March 9, 2011, the Receiver filed an initial report on the rehabilitation plan before the Court. The related party creditors interpose no objection to the Plan. However, the creditor banks commented on the dismissal of the Plan due to: (a) failure to comply, in form and substance, with the requirements of Financial Rehabilitation and Insolvency Act of 2010 (FRIA); (b) non-viability of the Plan; and (c) foreclosure rights of the creditor banks are affected. The Receiver recommended to the Petitioners to: (a) show clear blue print for the conversion of the industrial real estate into commercial or residential zones with specifics on cost, financial capacity of investor, time frame and potential value of the properties; and (b) show how financial projections will be attained with specifics on key target markets and contributions, products, volume and prices, cost of raw materials, labor costs, manufacturing and selling expenses.

On June 7, 2011, PNB filed a motion to dismiss the Plan. On July 27, 2011, the court issued an order denying the motion to dismiss filed by PNB for being a prohibited pleading.

On August 26, 2011, the Petitioners, filed an opposition to PNB's motion to dismiss and swore to show clear blue print for the conversion of industrial real estate into commercial or residential zones and projected financial statements showing in details how the projected revenues will be attained under the Plan, within thirty (30) days from August 26, 2011 to September 25, 2011 through a revised Plan.

On August 31, 2011, a motion to dismiss was filed by BDO joining the previous motion to dismiss filed by PNB.

On September 18, 2012, the Court granted the Petitioner's motion for the time to submit the revised Plan and gave the Petitioners sixty (60) days until November 4, 2012 to submit the revised Plan.

On September 24, 2012, the Petitioners filed a motion for partial reconsideration on the submission of revised Plan with respect to the Petitioners prayer to be allowed to enter into a formal property development agreement with Avida Land Corp. (ALC). On the same date, the Petitioners have fully settled its loan with BDO, including all accrued interest.

On October 25, 2012, PNB filed its opposition on the motion for partial reconsideration. In its opposition, PNB averred that: (a) the revision of the Plan is no longer proper as it was outside the one (1) year period provided under the FRIA and under the Rules of Corporate Rehabilitation; (b) there is no substantial likelihood for the Petitioners to be successfully rehabilitated.

On November 9, 2012, the court granted the Petitioners motion for the partial reconsideration to submit the revised plan and also authorized the Petitioners to enter into a formal property development agreement with ALC for the purpose of coming up with a concrete and complete Plan, provided that the development agreement will form part of the revised Plan.

On December 17, 2012, the Petitioners filed a revised Plan (which supersedes the first Plan) before the Court. Incorporated in the revised Plan as the Memorandum of Agreement (MOA) entered by the Petitioners and other related parties with ALC on the same date, 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 Petitioners, and around 8.47 hectares were mortgaged to PNB to secure the loan with an outstanding principal balance of P594 million as at December 31, 2012. As at December 31, 2012 the fair value of mortgaged properties to PNB amounted to P254.09 million. The projected future gross cash flows from the implementation of the revised plan amounted to P916.4 million over a nineteen (19) year time frame, of which P549.83 million were attributable to the share of the Petitioner based on agreed sharing scheme.

On January 31, 2013, the Receiver submitted its comment on the revised Plan and requested the Court to order the parties to negotiate and explore realistic and mutually acceptable rehabilitation plan.

In 2013, several enhancements of the revised Plan were discussed by the Petitioners and PNB.

On January 15, 2014, a conference prior to the resolution of the case was held among the Petitioners, PNB, BDO and the rehabilitation receiver. One of the topics covered, among others, is the presentation of Revised Rehabilitation Proposal letter by Novateknika Land Corp. (NLC) (borrower of PNB of which the properties by Petitioners were used to secure the loan of NLC) to PNB dated December 6, 2013. The terms of the proposal, among others are the following:

- ₱700 million to be paid within a period of 120 days from the acceptance of the offer; and
- All properties and collaterals mortgaged to PNB, including Quirino Manila, Valenzuela and Davao to be returned to their respective debtors or mortgagors.

In a letter dated February 3, 2014 by the Rehabilitation Receiver to the Court, the receiver mentioned that efforts were exerted to find a mutually acceptable plan of payment. However, the firm stand of PNB to be paid in full amount of ₱4 billion and liquidate the mortgaged properties served as barriers.

The Rehabilitation Receiver also reiterates his recommendations made in the Report dated November 28, 2013:

- 1) PNB will be paid at an amount substantially more than liquidating the mortgaged properties. At its present use, the mortgaged properties of PNB can command a price of ₱254 million against payment of ₱600 million plus interest. Of the ₱600 million to be paid, ₱200 million will be paid upfront and balance of ₱400 million over a period of five (5) years at 5 % p.a. interest rate. There will be no opportunity losses for PNB even if the ₱400 million will be amortized as interest is being paid.

As to the latest proposal made by Novateknika Land Corp. increasing the loan amount to be paid at ₱700 million (in this Corporate Rehabilitation proceedings the proposal is for P600 million) with the condition to release the mortgages in Valenzuela, Quirino, Manila and Davao City, Rehabilitation Receiver has no means of fully evaluating the latest proposal with the additional condition of releasing the mortgages in Quirino, Manila and Davao City.

- 2) Approval of the Rehabilitation Plan will pave the way for the development of the Plastic City Compound into a residential community which will not only benefit PNB but also the Petitioners and other property owners in the compound.
- 3) Given that PNB will be granted its motion to convert the proceedings to one of the liquidation and ultimately foreclose and take possession of the mortgaged properties, it will be quite difficult for PNB to immediately sell or develop same as it seems that the mortgaged properties are land locked and situated in the mid to inner part of the Plastic City Compound.

On November 19, 2014, the Petitioners received the Court order dated October 20, 2014 which disapproved the enhanced rehabilitation plan of Petitioners and converted the rehabilitation case into liquidation. The Court also issued an order which declared the Petitioners insolvent, ordered the liquidation of the assets of the Petitioners, and directed the sheriff to immediately take possession and safely keep all real and personal properties until the appointment of liquidator.

On December 15, 2014, the Petitioners filed a Petition for Review with Court of Appeals. As of the date of the issuance of the financial statements, the Court of Appeals has not reached a decision on the matters and accordingly, the eventual outcome of these matters cannot be determined as at reporting date.

On December 18, 2015, the CA issued its decision pertaining to the petition for review following the issuance of RTC's decision. The CA denied the petition and affirmed the decision of the RTC.

On January 22, 2016, a Motion for Reconsideration was filed by the Petitioners praying that the decision of the CA be reversed and set aside. As of the date of the issuance of consolidated financial statements, the CA has not yet ruled on the Motion for Reconsideration, and accordingly, the eventual outcome of these matters cannot be determined as at reporting date.

On July 12, 2016, the petitioners received the Resolution dated July 4, 2016 of the Court of Appeals, denying petitioner's Motion for Reconsideration of the Decision dated December 18, 2015. Hence, on August 11, 2016, petitioners filed a Petition for Review before the Supreme Court, docketed as G.R. No. 225579.

On November 04, 2016, petitioners received the resolution dated September 14, 2016 of the Supreme Court, denying the petition for review. On November 21, 2016 petitioners filed a Motion for Reconsideration of the said Resolution. On February 28, 2017, upon Petition of PNB, the RTC issued an order allowing the suspension of action in the proposed liquidation plan until after the comments of the creditors with regards to the amount of remaining obligation after foreclosure are taken into consideration in the liquidation plan. On March 1, 2017, the RTC issued an order granting PNB to continue with the foreclosure proceedings. The Petitioners were given 15 days to respond to the order. Meantime, the Group will maintain its warehouse facilities and machineries and equipment to facilitate the continued commercial use and maintain cash flows from rental to support its current operations. The Group will explore other business opportunities and assess and review its financial status. A capital infusion and build-up program is also contemplated in order to breathe life into the Group's consolidated financial statement of financial position. The size and timing thereof will be directly related to the planned entry into both the mining and real estate (industrial estate) sectors. The eventual outcome of these matters cannot be determined as at reporting date. As of the date of the issuance of the report, the Petitioners is in the process of responding to the order.

On January 24, 2018, the RTC rendered a decision ordering NLC and some of the stockholders jointly and solidarily liable to pay PNB amounting to ₱593 million with interest of 12% per annum from date of default, 24% penalty per annum and ₱3 million attorney's fees, less the proceeds of the auction sale of ₱119 million. On March 20, 2018 in order to terminate the proceedings and to finalize the settlement of all obligations of the Group to PNB, including, but not limited to the judgment of RTC, the Group entered into a Settlement Agreement with PNB to pay ₱950 million (the 'Settlement Amount') payable in two (2) tranche (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty (30) days after). Once PNB receive the Settlement Amount, it shall release the titles and issue the corresponding Cancellation of Mortgage of its lien over Davao and Valenzuela properties of the Group. Also, PNB shall sell the Quirino, Manila properties to 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 are hereby mutually, irrevocably, freely and voluntarily release and forever discharge one another, including their principals, affiliates, subsidiaries, owners, directors, officers, managers, successors-in-interest, agents, representatives, and/or assigns, from any and all claims, suits, and causes actions of whatever kind and nature, disclosed or undisclosed, pending or potential, which in law or equity they had, now have, or may have against each other, directly or indirectly arising out of, wholly or partially from, or related to or incidental to any of the facts, issues, or disputes involved in above cases, all of which claims, suits and causes of action the parties hereby relinquish, abandon, waive, save for such cause(s) of action that a party hereto may have against the other arising out of the said Settlement Agreement.

On the same date, the Group issued a check payable to PNB amounting to ₱850 million.

In this regard, the Group plans to pursue the development of the properties in Valenzuela City into residential clusters of condominium, townhouses, house and lots. Meanwhile, the Company will explore other business opportunities and assess and review its financial status. A capital infusion and build-up program is also contemplated in order to breathe life into the consolidated statements of financial position. The size and timing thereof will be directly related to the planned entry into both the mining and the real estate (industrial estate) sectors. The eventual outcome of these matters cannot be determined as at reporting date.

Consequently, the consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The 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.

Aside from the legal proceedings disclosed above, there is no any material pending legal proceedings to which the Company or any of its subsidiaries or affiliates is a party.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

A copy of the Audited Financial Statements as of December 31, 2017 and Unaudited Second Quarter of 2018 Financial Statements are herein attached.

PLAN OF OPERATION

Since the Company ceased its manufacturing operations due to, among others, high production costs and stiff competition. The Company also reorganized its operations by leasing out its vacant facilities to interested operators. Likewise, the Company continuously exerted efforts to maintain its machineries and equipment with a view of inviting foreign partners with modern technologies to revive the plastic manufacturing business and to be able to compete in local market. However, tight profit margins in the plastics industry has forced the Company to abandon its planned re-entry. As such, the Company has started to dispose of older, but still useable machineries & equipment.

In 2007 and prior years, the 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 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 Company to ride the crest of a resurgent mining industry including oil exploration of the country's offshore oil fields. The Company's strategy is to identify mining properties with proven mineral deposits particularly nickel, chromite, gold and copper covered by MPSAs and to negotiate for either a buyout or enter into a joint venture arrangement. For its oil and mineral exploration activities, the Company has identified and conducted initial discussions with potential investors.

However, the continuing global financial crises dampened metal and oil prices and has adversely affected the investment environment of mining and oil and mineral exploration industry of the country.

The company is considering its 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.

Projected Plan For The Next Twelve (12) Months:

In view of the Settlement Agreement between the Group and Philippine National Bank, on May 31 2018, the Regional Trial Court Branch 75 in Valenzuela City rendered a decision that the rehabilitation case entitled "IN RE: Corporate Rehabilitation of Pacific Plastic Corporation, Inland Container Corporation and Kennex Container Corporation" docketed as SP Proc. No. 44-V-10 filed by its subsidiaries, Inland Container Corporation, Pacific Plastic Corporation, and Kennex Container Corporation, is now CLOSED and TERMINATED. The Group plans for the next twelve months as follows:

Plan of Operation

The Agreement with Avida Land Corporation (ALC) for the development of the real estate will be revisited. The project in Valenzuela City will be undertaken in a joint venture with Philippine Estate Corporation (PHES), an affiliate, to convert 21.3 hectares of the Group's industrial real estate in Valenzuela into commercial and residential zones to increase its value. The plan will be implemented over a span of five (5) years, with the Group forecasting gross income projections of some ₱4.214 billion from 2019 to 2023.

The Parent Company, on the other hand, will re-study its planned investment into the mining industry via acquisition of a company with an existing Mineral Product Service Agreement (MPSA) with the Mines and Geosciences Bureau (MGB). A short listing of mining companies was already discussed on the Board on its meeting in 2015, and some new targets have also been discussed recently. It is expected that due to the current inactivity of the mining sector, several under-valued opportunities may become available on the market.

The Group is also studying the development of rawland into Industrial Estates, given that the "Build, Build, Build Program" of the government will jumpstart the development of new airports, seaports, bridges and highways. It is foreseen that the new strategic locations for industrial and manufacturing plants will arise due to the convergence of these planned infrastructure projects of the government.

Capital Generation and Satisfaction

Based on current operation, the Company's cash requirements can be generated internally from continues 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. 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

Ocular inspections for suitable raw land for development into industrial subdivisions are on-going in Cavite, Laguna, Batangas and Bulacan. Discussions have been carried out with local government city planning officials in order to determine which sites are likely candidates for long-term success. The group is regularly consulting with various urban planners and construction engineers to develop financial feasibility models for these proposed industrial estates.

Manpower and Capital Asset Requirements

Manpower will be sourced when needed and when specific operations will commence. There are no specific plans yet for the acquisition of exploration equipment for mining activities since acquiring a mining company is still in process of evaluation by the Board. Likewise, pending the completion of the detailed feasibility studies, there are no specific plans yet for the acquisition of rawland for development into industrial estates.

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.
3. **Working Capital** – to meet the obligations of the company, it is measured by determining current assets over current obligations.
4. **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)	45.25%	44.64%
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.

Financial Highlights

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

	As of December 31 (Amounts in Php '000)	
	2017	2016
<i>Income Statement</i>		
Rental Income	17,492	14,958
Total Expenses	(34,010)	(34,162)
Loss from Continuing Operations	(16,518)	(19,204)
Other income (expenses)	(788)	129,574
Income tax expense – current & deferred	(763)	(2,588)
Net Income (Loss) for the year	(18,069)	107,782
Earnings (Loss) Per Share	(0.0055)	0.0329
	As of December 31 (Amounts in Php '000)	
	2017	2016
<i>Balance Sheet</i>		
Current Assets	141,910	144,594
Noncurrent Assets	1,664,828	1,683,366
Total Assets	1,806,738	1,827,960
Current liabilities	13,857	18,159
Noncurrent liabilities	498,556	497,406
Stockholder's equity	1,294,325	1,312,395
Total Liabilities & Equity	1,806,738	1,827,960

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

CHANGES IN RESULTS OF OPERATION

Revenues and Earnings per share

Total revenues for the year 2017 and 2016 are ₱17M and ₱15M, respectively. The Group has ceased commercial operations since 2002 and currently disposed to lease out its warehouse facilities. Due to this circumstances, revenue for the year increased by ₱2M 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 ₱1.5M or 16.28% as compared to last year due to the net effect of higher property taxes paid for the current year of ₱2.9M and decrease in depreciation during the current year by ₱1.5M. Operating expenses for 2017 decreased by ₱1.7M or 6.85% due to lower general and administrative expenses incurred during the year.

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 ₱1.8M or 2.44%.

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 ₱0.4M 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 ₱1.6M 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 ₱13.2M, ₱13.3M and ₱13.5M in 2017, 2016 and 2015, respectively.

Other Assets

This consists mainly of Refundable Deposits. An amount of ₱0.18M 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 government liabilities.

The amount recorded in year 2017 and 2016 are ₱11M and ₱15.4M, respectively. The decrease of ₱4.5M 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 ₱1.1M 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 ₱0.3M or 12.51% pertains to advance rental on the new and renewal of lease contracts.

Calendar Year Ended December 31, 2016 vs. Calendar Year Ended December 31, 2015

CHANGES IN RESULTS OF OPERATION

Revenues and Earnings per share

Total revenues for the year 2016 and 2015 are ₱15M and ₱15.2M, respectively. The Group has ceased commercial operations since 2002 and currently disposed to lease out its warehouse facilities. Decrease of ₱0.2M or 1.32% is due to termination of other lease contracts for buildings and warehouses to prepare the land as covered by memorandum of agreement with ALC for the development of the Plastic City compound. As of December 31, 2016, the Group has nine (9) tenants occupying 21 areas, more than that of last year. Rental rates were increased to cover overhead and fixed expenses.

Earnings (loss) per share comparisons from year 2016 and 2015 as follows: ₱0.0329 and ₱0.1330 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 2016 increased by ₱2M or 26.67% as compared to last year due higher property taxes paid for the current year (increased by ₱1.9M) and increase in repairs and maintenance made during the current year (increased by ₱0.1M).

Operating expenses for 2016 decreased by ₱1M or 3.89% due to net effect of: (a) decreased in depreciation expense (₱0.2M); (b) decreased in professional fees paid for the year due to appraisal made and increase in legal and audit fees in 2015 (₱1M); (c) decreased in salaries and wages (₱0.2M); (d) increased in communication, light and power (₱0.2M); (e) decreased in taxes and licenses (₱0.8M) and (f) increased in other expenses (₱0.6M).

CHANGES IN FINANCIAL CONDITION

Current Assets:

Receivables

This account consists of trade receivable from rental, advances to employees and reimbursable utilities expenses from tenants of PCIC. Rental receivables are collectible monthly based on terms of the contract. This year, trade receivable account increased by ₱57.3M or 389.80% due to receivables from previous subsidiary that were not eliminated during consolidation. These subsidiaries (Philfoods Asia, Inc., Weltex Industries, Inc. and MPC Plastic Corp.) were sold to third party last February 10, 2016. Outstanding receivables from these previous subsidiaries were retained on respective financial statements of Parent Company, Wellex Industries, Inc. and Plastic City Industrial Corporation. As of December 31, 2016, only receivables from Philfoods Asia, Inc. are fully covered by valuation allowance amounting to ₱58.1M.

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, 2016 and 2015, 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 ₱2.2M or 23.66% 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, 2016, 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, 2016 and 2015 amounted to ₱131.1 million and ₱119.7 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 ₱22.9M is due to net effect of depreciation recognized for the year amounting to ₱3.1M which was charged to direct cost, and disposal of land with a carrying value of ₱19.8M. PCIC subsidiary, Rexlon Industrial Corp., sold its land last April 2016 for a total consideration of ₱33.1M. The Company recognized ₱12.99M gain from this sale.

On December 9, 2015, independent appraisers assessed that the aggregate fair value of Group's investment properties (which includes land, land improvements and buildings and improvements) was above its costs, and recovery of previously recognized impairment loss of ₱337,293,585 was recognized for the year 2015. The fair value is determined using the combination of cost and market approach.

Interest in a Joint Operation

This account consists of parcels of land contributed to a joint venture through a Joint Venture Agreement entered into in 1997 between PCIC subsidiaries (Inland Container Corporation, Rexlon Industrial Corporation and Kennex Container Corporation) with Philippine Estates Corporation (PEC) as Developer and PCIC subsidiaries and other affiliates as co-landowners.

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. Based on the recent appraisal of the property conducted by an independent firm of appraisers on December 9, 2015, it was determined that the fair value of land, land improvements and buildings and building improvements contributed to the joint venture is higher than its carrying amount. Previously recognized impairment loss amounting to ₱159.6M was reversed. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

The Group recognized revenue amounting to ₱1.6M representing its share in the sale of joint venture lots in 2015. As at December 31, 2016, outstanding receivable from PEC amounted to ₱12.6M which pertain to the Group's share in the sale of lot net of expenses.

Property, Plant and Equipment

This consists mainly of land, buildings and various equipment of PCIC subsidiaries and Philfoods 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. See notes to financial statement.

The decrease is due to the depreciation provision during the year. At present, property, plant and equipment are not subject to any liens or encumbrances.

Total depreciation charged to operating expenses amounted to ₱13.3M, ₱13.5M and ₱14.021M in 2016, 2015 and 2014, respectively.

Other Assets

This consists mainly of Refundable Deposits. An amount of ₱0.181M was recorded in year 2016 and 2015.

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 2016 and 2015 are ₱15.4M and ₱23.9M, respectively. The decrease of ₱8.5M or 35.56% was due to settlement of subsidiaries' payable during the year using the proceeds from the sale of investment property.

Advances from Affiliates and Stockholders

This represents non-interest bearing cash advances extended by the Affiliates and Stockholders to the Company and Subsidiaries for working capital requirements.

A decreased by ₱17.1M or 3.33% was recorded in 2016 due to the offsetting of advances to and from Plastic City Corporation and other related parties.

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 ₱0.3M or 13.04% 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.

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. Details of the rehabilitation were fully disclosed in the notes to financial statement and in *Item 3 Legal Proceedings*.

(ii) Events that will Trigger Direct or Contingent Financial Obligation

Since the Plastic City Industrial Corporation ceased in commercial operation there are no events that will trigger direct or 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 in commercial operation there are no commitments on major capital expenditures.

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

The Group has ceased commercial operations since 2002 and currently disposed to lease out its warehouse facilities. Rental Income recorded for the year 2017 compared to 2016 increased by 16.94%. As of December 31, 2017 there are nine (9) lessees occupying 18 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, 2017 is 1,024.08% with current assets of ₱141.9M over ₱13.9M 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.

(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’ above.

(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. 35th Floor, One Corporate Centre Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City, Philippines.

Interim Period as of Quarter Ended June 30, 2018

Below are the results of operations of the Parent Company and its subsidiaries as of the Quarter ended June 30, 2018 together with its financial conditions as of the same period.

- Unaudited Income Statement

	Amounts in Php			
	April – June 2018	April – June 2017	Jan – Jun 2018	Jan – Jun 2017
Rental income	5,683,546	4,215,355	11,119,917	7,896,413
Direct costs and expenses	4,576,083	1,842,282	6,908,857	3,417,449
Gross profit	1,107,463	2,373,073	4,211,060	4,478,964
Operating expenses	4,622,316	6,095,291	8,733,167	13,270,198
Income (loss) from operations	(3,514,853)	(3,722,218)	(4,522,107)	(8,791,234)
Other income (charges)	81,346	82,275	162,330	162,919
	(3,433,507)	(3,639,943)	(4,359,777)	(8,628,315)
Finance cost		2,384		5,752
Net income (loss) before tax	(3,433,507)	(3,642,327)	(4,359,777)	(8,634,067)
Income tax expense		-		-
Net income (loss) for the period	(3,433,507)	(3,642,327)	(4,359,777)	(8,634,067)
Earnings (loss) per share	(₱0.0011)	(₱0.0011)	(₱0.0013)	(₱0.0026)

- Unaudited Balance Sheet

	Amounts in Php		
	June 30, 2018	June 30, 2017	December 31, 2017
Current assets	149,627,478	97,149,929	141,909,665
Noncurrent assets	1,662,037,252	1,672,224,754	1,664,828,126
Total Assets	1,811,664,730	1,769,374,683	1,806,737,791
Current liabilities	26,114,291	16,789,077	13,857,246

Non-current liabilities	492,776,034	448,825,547	498,555,691
Stockholders' equity	1,292,774,406	1,303,760,059	1,294,324,854
Total Liabilities & Equity	1,811,664,730	1,769,374,683	1,806,737,791

Key Performance Indicators

As the Parent Company is still in the process of discussing with potential investors for its oil and mineral exploration, and its subsidiary, PCIC, ceased its manufacturing operation since 2002 due to Asian crises and stiff business competition and had leased out its building facilities, 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 2018, the company has an average of ₱274,343 rental income per tenant or an increase of ₱17,587 rental income per tenant or 6.85% as compared to 2nd quarter of 2017. Due to the pending agreement with ALC for the development of Plastic City compound, some of the buildings and warehouses were being leased out again. Some rental rates of other tenants were increased to cover fixed and overhead expenses.
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 2018, ratio of past due receivables to total outstanding was 42.64%.
3. **Gross Profit Margin** - this is derived by dividing the gross profit over the revenues amount. Second quarter of 2018 has a gross profit margin of 19.48% compared to 56.30% for the second quarter of 2017.
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 2018 was 572.97% as compared to 578.65% on the second quarter of 2017. Decrease is attributable to increase in both receivables and current liabilities.
5. **Advances by the Affiliates** - For the 2nd quarter of 2018, the company has total advances from affiliates amounting to ₱501 million or an increase of ₱53 million from last year's ₱448 million balance.

Quarter ended June 30, 2018 as compared with quarter ended June 30, 2017

CHANGES IN RESULTS OF OPERATION

As of the quarter ending June 30, 2018, the company has ceased commercial operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the second quarter of 2018 amounted to ₱5.6 million as compared to the same quarter of 2017 amounting to ₱4.2 million or an increase of ₱1.4 million or 33.33%. Number of areas being leased out for the 2nd quarter of 2018 is higher than the same quarter of 2017 and rental rates are adjusted to cover fixed and overhead expenses.

Loss per share comparison for the quarter ended June 30, 2018 and 2017 are ₱0.0011 and ₱0.0011, respectively.

As of June 30, 2018, there are eleven (11) companies leasing inside the PCIC compound occupying twenty (20) 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	04/01/18-12/31/18	258,188
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	1,134	04/01/18-12/31/18	258,188
3	SMYPC - MANILA PLASTIC PLANT - bldg 30	2,200	04/01/18-12/31/18	481,257
4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/17-09/05/18	667,634
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/17-09/14/18	621,441
6	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	2,000	10/08/17-09/07/18	300,000

7	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	3,000	11/16/17-10/15/18	450,000
8	TRIPLE SEVEN J.R.T. BUILDERS - B15	1,100	01/01/18-06/30/18	235,714
9	CARTER INDUSTRIAL CORP. - Bldg 42	1,980	01/01/18-06/30/18	386,100
10	RAMOSCO LOGISTICS INC. - Office		03/01/17-06/30/18	45,000
11	GRACEFUL LOGISTICS	2,000	05/01/18-05/14/19	160,000
12	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/18-05/31/19	40,000
13	SAN MIGUEL BREWERY INC.- bldg 23	3,105	04/01/18-04/30/19	665,357
14	SAN MIGUEL BREWERY INC.- SHIPPING YARD	1,430	04/01/18-04/30/19	191,518
15	SAN MIGUEL BREWERY, INC - Bldg 24	1,476	03/01/18-03/31/19	316,286
16	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	1,500	03/01/18-03/31/19	200,893
17	BIG THUMB ENTERPRISES-bldg 23 open space	35	03/01/18-03/31/19	9,000
18	GOENG MARKETING - Bldg 26	524	01/01/18-12/31/18	112,286
19	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/18-01/15/19	225,000
20	RBSB ENTERPRISES-bldg 28	300	11/15/17-11/14/18	63,000

Cost and Expenses

Direct cost and operating expenses for the 2nd quarter of 2018 totaled ₱9.2 million as compared to ₱7.9 million for the 2nd quarter of 2017 or an increase of ₱1.3 million or 16.46%. 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 2nd quarter of 2018 amounted to ₱4.5 million which is ₱2.7million higher than cost incurred for the 2nd quarter of 2017. The increase is attributable to higher depreciation, security services and property taxes.
2. Operating expenses decreased by ₱1.47 million or 24.16% as a result of big decrease in depreciation charged to operation.

CHANGES IN FINANCIAL CONDITION

Cash

The Group's cash decreased by ₱3.2 million or 69.39% due to the following activities: (a) net cash used in operating activities for the quarter is ₱4.9 million, (b) net cash generated in investing activities for the quarter is ₱0.3 million and (c) net cash provided in financing activities for the quarter is ₱3.6 million.

Available-for-sale financial assets

During the latter part of 2017, the Group acquired an investment in unquoted shares of stock in Bulacan Harbour Dev't. Corp. amounting to ₱12.5 million. The Group does not participate in the financial and operating policy of the investee which manifests control or significant influence.

Property and equipment

This consists mainly of building and improvements, machinery and equipment, transportation equipment and tools and furniture and fixtures of PCIC subsidiaries used for the manufacturing of plastic products.

The Group's machinery and equipment was appraised on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. Based on the appraisal, the fair value of machinery and equipment amounted to ₱31,376,000. The fair value of machinery and equipment were determined to be lower than its carrying amount. Decline in value of machineries and equipment amounted to ₱17,893,083 was recognized in 2015.

The decrease is mainly attributable to the depreciation charged to operations for the period.

Advances to related parties

A decrease of ₱14 million or 10.89% was 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.

Advances from lessees

Amount recorded for the quarters ended June 30, 2018 and 2017 is ₱3.5 million and ₱2.8 million, respectively or an increase of ₱0.7 million or 26.60% due to increase in the Group's average rental income. Some tenants made advance payment for the contract signed to reserve for the opportunity to lease the areas again after their contract expired.

Undertaking

A copy of Second Quarter Report for the period ended June 30, 2018 or SEC Form 17-Q will be made available during the Annual Stockholders' Meeting.

(i) Summary of Material Trends, Events and Uncertainties

Philfoods Asia Incorporated

Philfoods started commercial operation in 2000 and was suspended in 2002. On March 15, 2016, the Parent Company sold its investment in Philfoods for a total consideration of ₱6,249,975.

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 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 a reliable joint venture partners who have the means to continue its operations.

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. Details of the rehabilitation were fully disclosed in Annex A.5 under Note 1 of the Notes to Consolidated Financial Statements.

On March 15, 2016, PCIC sold its whole interest on Weltex Industrial Corp. to Chesa Holdings, Inc. for a total purchase price of ₱6,249,250. On the same date, PCIC sold also its shares in MPC Plastic Corp. to Chesa Holdings, Inc. for a total purchase price of ₱2,500,000.

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

Since the Plastic City Industrial Corporation and Philfoods Incorporated CEASED in commercial 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 and Philfoods Asia Incorporated 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)

Plastic City Industrial Corporation ceased in commercial operation and is disposed to lease out its warehouse facilities.

Rental Income recorded for the 2nd quarter of 2018 compared to 2017 increased by 34.83% due to

increase in rental rates to cover fixed expenses for terminated lease contracts. As of June 30, 2018, there are eleven(11) lessees occupying eighteen (20) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to eight (8) lessees, occupying sixteen (16) areas for 2017. Some rental rates of other tenants were increased to cover fixed and overhead expenses.

Pacific Plastic Corp., a Plastic City Industrial Corp. (PCIC) subsidiary, entered into a Contract to Sell (CTS) with Avida Land Corp. last December 17, 2012, for the sale of its 25,203 sq. meters of land located in PCIC compound. Consequently, rental contracts with tenants/lessees on such areas were pre-terminated/terminated as of December 31, 2012.

Current ratio (current assets over current liabilities) as of the 2nd quarter of 2018 is 894.96% with recorded current assets of ₱149.6 million over ₱16.7 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

Philfoods Asia, Inc., ceased its commercial operations in 2002 while PCIC and subsidiaries ceased manufacturing operations in 2002 and prior years 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. The company is now more focus on leasing its warehouses.

(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 Operating Results' above.

(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. Here are list of the high and low sales price by quarter for the last 3 years:

		<u>"CLASS A"</u>	
		High	Low
2018	First Quarter	0.200	0.191
	Second Quarter	0.250	0.235
2017	First Quarter	0.193	0.190
	Second Quarter	0.214	0.210
	Third Quarter	0.197	0.194
	Fourth Quarter	0.194	0.182
2016	First Quarter	0.205	0.200
	Second Quarter	0.205	0.198
	Third Quarter	0.203	0.196
	Fourth Quarter	0.194	0.193
2015	First Quarter	0.243	0.235
	Second Quarter	0.200	0.190
	Third Quarter	0.234	0.216
	Fourth Quarter	0.210	0.191

The price information as of August 31, 2018 (latest practical trading date) was closed at ₱0.33 for Class A, the only security traded by the Company, and there are 1,005 stockholders.

HOLDERS

The numbers of shareholders of record as of August 31, 2018 were 1,005. Common shares issued and subscribed as of August 31, 2018 were 3,271,938,180.

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES

List of Top 20 Stockholders of Record August 31, 2018

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	PERCENTAGE TO TOTAL OUTSTANDING
PCD NOMINEE CORP.	FILIPINO	904,306.803	27.638
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
PCD NOMINEE CORPORATION (NON-	OTHERS	40,597.020	1.241
ORIENT PACIFIC CORPORATION	FILIPINO	36,340.000	1.111
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	FILIPINO	300.000	0.009

CASH AND STOCK DIVIDEND DECLARED

No cash or stock dividend has been declared in 2017, 2016 and 2015

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:

Name	Age	Citizenship	Position and Office
Peter S. Salud	64	Filipino	Chairman of the Board
Kenneth T. Gatchalian	42	Filipino	President / Director
Elvira A. Ting	57	Filipino	Vice-President/Director
Richard L. Ricardo	55	Filipino	Treasurer/Director
William T. Gatchalian	69	Filipino	Director
Atty. Lamberto B. Mercado,	53	Filipino	Director
Omar M. Guinomla	46	Filipino	Director
James B. Palit-Ang	54	Filipino	Director
Ruben D. Torres	77	Filipino	Independent Director
Byoung Hyun Suh	61	Korean	Independent Director
Sergio R. Ortiz-Luis, Jr.	75	Filipino	Independent Director
Atty. Mariel L. Francisco	36	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:

Name	Business Experience for the Last Five (5) Years	
Peter S. Salud Chairman/ Director Filipino 64 years old	Wellex Industries, Inc. Forum Pacific Inc. Wellex Petroleum Inc. Sands Mining & Development Corp. Manila Sands Hotel and Casino Inc.	Chairman/Director Treasurer/Director Chairman/Director President/Director

Name	Business Experience for the Last Five (5) Years	
Kenneth T. Gatchalian President/ Director Filipino 42 years old B.S. in Architecture <i>University of Texas, USA</i>	Wellex Industries, Inc. The Wellex Group, Inc. Forum Pacific Inc. Waterfront Philippines, Inc. Waterfront Manila Premier Development, Inc. Acesite (Hotels) Phils., Inc. Philippine Estates Corporation Orient Pacific Corporation Wellex Mining Corporation Westland Pacific Properties Corporation Wellex Petroleum, Inc.	President/Director Treasurer/Director President/Director President/Director President/Director Vice Chairman/Director President/Director Chairman/President/Director Treasurer/Director Corp. Secretary/Director

Name	Business Experience for the Last Five (5) Years	
Elvira A. Ting Vice President/ Director Filipino 57 years old BSBA Major in Management <i>Phil. School of Business Administration</i>	Wellex Industries, Inc. Philippine Estates Corporation Waterfront Philippines, Inc. Forum Pacific, Inc. Acesite (Hotels) Phils., Inc. Orient Pacific Corporation Crisanta Realty Devt. Corp. Recovery Devt. Corp. The Wellex Group, Inc. Plastic City Industrial Corp. Waterfront Manila Premier	President/CEO Treasurer/Director President/Director Vice Chairman/Director Chairman/President/Director Chairman/President/Director Treasurer/Director Treasurer/Director Director Corp. Secretary/Director

	Development, Inc.	
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Name	Business Experience for the Last Five (5) Years	
Richard L. Ricardo Treasurer/Director Filipino 55 years old Bachelor of Science Management Economics <i>Ateneo de Manila University</i>	Wellex Industries, Inc. Forum Pacific Inc. Waterfront Philippines, Inc. Acesite (Phils.) Hotel Corp. Philippine Estates Corporation The Wellex Group, Inc. Rexlon Realty Group, Inc. Westland Pacific Properties Corporation Wellex Petroleum, Inc. Wellex Mining Corporation	Director Corporate Affairs Officer/ Compliance Officer Vice President for Corporate Affairs/Compliance Officer Treasurer/Investor Relations Officer/Director Corporate Secretary/Director Vice President/Director Corporate Secretary/Director Director Assist. Corp. Sec./Director

Name	Corporation	Position
William T. Gatchalian Director Filipino 69 years old B.S. in Management <i>University of the East</i>	Present: Wellex Industries, Inc. The Wellex Group, Inc. Wellex Petroleum Inc. Manila Sands Hotel & Casino Inc. Bulacan Harbour Dev't. Corp	Chairman/Director Chairman/Director Chairman/Director Chairman/Director

Name	Business Experience for the Last Five (5) Years	
Atty. Lamberto B. Mercado Jr. Director Filipino 53 years old Bachelor of Laws (L.L.B.) <i>Ateneo de Manila University</i> School of Laws Lawyer	Wellex Industries, Inc. MAHEC and CPDSI AHI, FEZ and ZDI Forum Pacific Inc. Waterfront Philippines, Inc. Philippine National Construction Corporation Wellex Petroleum, Inc. Rexlon Realty Group, Inc. Wellex Mining Corporation	Director Director Director Director Director President/Director Assist. Cop. Sec./Director Corp. Secretary/Director

Name	Business Experience for the Last Five (5) Years	
Omar M. Guinomla Director Filipino 46 years old A.B. Management <i>De La Salle University</i> Master's in Business Administration <i>Ateneo de Manila University</i>	Present: Wellex Industries, Inc. Forum Pacific Inc. Recovery Real Estate Corp. Pacific Rehouse Corp. Orient Pacific Corp. Recovery Development Corp.	Director Director Director Assist. Corp. Sec./Director Assist. Corp. Sec./Director

Name	Corporation	Position
James B. Palit-Ang Director Filipino 54 years old B.S.B.A Accounting <i>Philippine School of Business Administration</i>	Present: Wellex Industries, Inc. Metro Alliance Holdings & Equities Corp. Noble Arch Realty & Construction Corp. Philippine Estates Corp. Crisanta Realty & Development Corp. Pacific Concorde Corp. Pacific Rehouse Corp. Recovery Real Estate Corp. Orient Pacific Corp. Rexlon Realty Group, Inc.	Treasurer Chairman and President Director Vice President Chairman/President Director Chairman/President Director Director

Name	Business Experience for the Last Five (5) Years	
Byoung Hyun Suh Independent Director Korean 61 years old B.S. in Business Administration <i>Korea University,</i> <i>Seoul Korea</i>	Wellex Industries Inc. Pan Islands, Inc. Overseas Korean Traders Associations Forum Pacific Inc. Bonamis Pharmacy Phil's. Corp. Philippines Estates Corporation Metro Alliance Holdings & Equities Corp.	President President Independent Director President Independent Director Independent Director

Name	Business Experience for the Last Five (5) Years	
Sergio R. Ortiz-Luis, Jr. Independent Director Filipino 75 years old Bachelor of Arts Bachelor of Science in Business Administration Masters of Business Administration <i>De La Salle University</i> PhD Humanities <i>Central Luzon University</i> PhD Business Technology <i>EARIST</i>	Wellex Industries Inc. Philippine Exporters Confederation Inc. Alliance Global, Inc. Waterfront Philippines, Inc. ECOP BA Securities Waterfront Manila Premier Development, Inc. Acesite (Phils) Hotel Corp. Philippine Estates Corporation Forum Pacific Inc.	President/CEO Vice Chairman Independent Director Past President & Honorary Charman Independent Director Chairman/Director Independent Director Independent Director Independent Director

Name	Business Experience for the Last Five (5) Years	
Atty. Ruben D. Torres Independent Director Filipino 77 years old Bachelor of Arts in Political Science Bachelor of Laws University of the Philippines	Wellex Industries Inc. BPO Workers Association of the Philippines Services Exporters Risk Management & Consultancy Co Trade Union Congress of the Philippines Torres Caparas Torres Law Offices Waterfront Philippines Inc.	President Chairman/CEO VP-International Affairs Senior Partner Independent Director

	Acesite Philippines Hotel Corp. Forum Pacific Inc.	Independent Director Independent Director
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Name	Corporation	Position
Atty. Mariel L. Francisco Corporate Secretary Filipino 36 years old Bachelor of Laws <i>Arellano University</i>	Wellex Industries, Inc. Forum Pacific, Inc. Philippine Estates Corporation	Assistant Corporate Secretary Assistant Corporate Secretary

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 strives 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 May 30, 2018 covering the year 2017.

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

* * *

*Wellex Industries, Inc.
and Subsidiaries*

**Financial Statements
December 31, 2017 and 2016**

Independent Auditor's Report

and

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



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, 2017 and 2016**, 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.


ROGELIO D. GARCIA
Chairman of the Board


KENNETH T. GATCHALIAN
President


RICHARD L. RICARDO
Corporate Treasurer

SUBSCRIBED AND SWORN to before me in _____ City/Province, Philippines on _____
affiants personally appeared before me and exhibited to me their

Name
1. ROGELIO D. GARCIA
2. KENNETH T. GATCHALIAN
3. RICHARD L. RICARDO

Tax Identification Number
108-672-299
167-406-526
140-857-860

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

DOC NO: 240
PAGE NO: 68
BOOK NO: 17
SERIES OF: 2018

35th Flr. One Corporate Center Doña Julia Vargas Avenue corner Meralco Ave., Ortigas Center, Pasig City, Phils. 1605
Tel. No. (632) 706-7888 * Fax No. (632) 706-5982

**Diaz Murillo Dalupan
and Company**
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Stockholders of
WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
35th 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, 2017 and 2016, 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, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, 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.

Emphasis of Matter

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 P2.006 billion and P1.988 billion as at December 31, 2017 and 2016, 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.

Local in Touch, Global in Reach

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an independent member of  International. A worldwide organization of accounting firms and business advisers.

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. On October 20, 2014, the Regional Trial Court (RTC) disapproved the rehabilitation plan and converted the rehabilitation case into liquidation. On December 15, 2014, Inland Container Corporation, Pacific Plastic Corporation and Kennex Container Corporation (the "Petitioners") filed a Petition for Review with the Court of Appeals (CA) and on December 18, 2015, the CA denied the petition and affirmed the decision of the RTC. The Petitioners filed a Motion for Reconsideration (MR) with the CA on January 22, 2016. However, on July 4, 2016, the CA denied the MR. Hence, on August 11, 2016, the Petitioners filed a Petition for Review before the Supreme Court (SC). On November 4, 2016, the Petitioners received the resolution dated September 14, 2016 of the SC, denying the petition for review. On November 21, 2016, the Petitioners filed an MR of the said resolution. On February 28, 2017, upon Petition of Philippine National Bank (PNB), the RTC issued an order allowing the suspension of action in the proposed liquidation plan until after the comments of the creditors with regard to the amount of remaining obligation after foreclosure are taken into consideration in the liquidation plan. On March 1, 2017, the RTC issued an order granting PNB to continue with the foreclosure proceedings. On October 4, 2017, the SC resolves to deny the MR with finality. On January 24, 2018, the RTC rendered a decision ordering Novateknika Land Corp. (NLC) and some of the stockholders jointly and solidarily liable to pay PNB amounting to ₱593 million with interest of 12% per annum from date of default, 24% penalty per annum and ₱3 million attorney's fees, less the proceeds of the auction sale of ₱119 million. On March 20, 2018, in order to terminate the proceedings and to finalize the settlement of all obligations of the Group to PNB, including, but not limited to the judgment of RTC, the Group entered into a Settlement Agreement with PNB to pay ₱950 million (the 'Settlement Amount') payable in two (2) tranches (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty (30) days after). Once PNB receive the Settlement Amount, it shall release the titles and issue the corresponding Cancellation of Mortgage of its lien over Davao and Valenzuela properties of the Group. Also, PNB shall sell the Quirino, Manila properties to 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 are hereby mutually, irrevocably, freely and voluntarily release and forever discharge one another, including their principals, affiliates, subsidiaries, owners, directors, officers, managers, successors-in-interest, agents, representatives, and/or assigns, from any and all claims, suits, and causes of actions of whatever kind and nature, disclosed or undisclosed, pending or potential, which in law or equity they had, now have, or may have against each other, directly or indirectly arising out of, wholly or partially from, or related to or incidental to any of the facts, issues, or disputes involved in above cases, all of which claims, suits and causes of action the parties hereby relinquish, abandon, waive, save for such cause(s) of action that a party hereto may have against the other arising out of the said Settlement Agreement. On the same date, the Group issued a check payable to PNB amounting to ₱850 million. We have performed audit procedures to evaluate Management's plan for future action as to their likelihood to improve the situation under the circumstances.

Key Audit Matters

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

Valuation of Advances to Related Parties

The advances to related parties represent major part of the total assets. Portion of the advances to related parties pertains to non-interest bearing cash advances to subsidiaries intended for payment of operating expenses. Thus, the valuation of the receivables was significant to our audit.

Our Response

Our audit procedures to address the risk of material misstatement relating to valuation of receivables, which was considered to be a significant risk, included:

- Obtained understanding on Company's credit and impairment policy.
- Confirmed the necessity and adequacy of impairment provisions by reviewing correspondence and other documentation
- Checked and evaluated methodologies and assumptions used in performing both individual and collective impairment assessment.
- Inspected financial statements of related parties to verify the collectability of the advances.
- Assessed the related parties' repayment abilities.
- Performed re-computation of recoverable amount against carrying value of advances.

The Group's disclosures about its advances to related parties are included in Note 19.

Going Concern

As disclosed in Note 1, the Group had accumulated deficit of ₱2,006,203,584 and ₱1,988,134,312 as at December 31, 2017 and 2016, 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, 2017, 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, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

Diaz Murillo Dalupan And Company

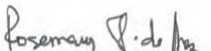
Tax Identification No. 003-294-822

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

SEC Accreditation No. 0192-FR-2, Group A, effective until May 1, 2019

BIR Accreditation No. 08-001911-000-2016, effective until March 17, 2019

By:


Rosemary D. De Mesa

Partner

CPA Certificate No. 29084

SEC Accreditation No. 1089-AR-2, Group A, effective until May 10, 2020

Tax Identification No. 104-576-953

PTR No. 6615250, January 4, 2018, Makati City

BIR Accreditation No. 08-001911-007-2016, effective until March 17, 2019

March 26, 2018

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Financial Position



	As at December 31	
	2017	2016
ASSETS		
Current Assets		
Cash - note 4	P 2,429,039	P 3,752,995
Trade and other receivables - note 5	70,276,179	72,036,147
Installment contract receivable - note 22	57,316,896	57,316,896
Prepaid taxes - note 6	11,887,551	11,487,877
	141,909,665	144,593,915
Noncurrent Assets		
Available-for-sale financial assets - note 7	12,500,000	—
Advances to related parties (net) - note 19	114,852,847	131,130,618
Investment properties (net) - note 8	979,530,545	981,108,519
Interest in joint operation (net) - note 9	542,573,111	542,573,111
Property and equipment (net) - note 10	15,190,779	28,372,497
Other assets	180,844	180,844
	1,664,828,126	1,683,365,589
TOTAL ASSETS	P 1,806,737,791	P 1,827,959,504
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other liabilities - note 12	P 10,960,233	P 15,424,804
Advances from lessees - note 21	2,897,013	2,574,795
Borrowings (current portion) - note 11	—	159,619
	13,857,246	18,159,218
Noncurrent Liabilities		
Advances from related parties - note 19	497,930,191	496,822,360
Retirement benefits obligation - note 17	625,500	583,800
	498,555,691	497,406,160
Equity		
Capital stock - note 13	3,276,045,637	3,276,045,637
Additional paid-in capital	24,492,801	24,492,801
Deficit - note 1	(2,006,203,584)	(1,988,134,312)
	1,294,334,854	1,312,404,126
Treasury stock - note 13	(10,000)	(10,000)
	1,294,324,854	1,312,394,126
TOTAL LIABILITIES AND EQUITY	P 1,806,737,791	P 1,827,959,504

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

	For the Years Ended December 31		
	2017	2016	2015
RENTAL INCOME - notes 8 and 21	P 17,491,792	P 14,957,639	P 15,238,093
DIRECT COSTS AND EXPENSES - note 14	11,001,579	9,461,194	7,457,120
GROSS INCOME	6,490,213	5,496,445	7,780,973
OPERATING EXPENSES - note 15	23,008,317	24,701,008	25,687,589
LOSS FROM OPERATIONS	(16,518,104)	(19,204,563)	(17,906,616)
OTHER INCOME (net) - note 16	327,355	130,152,040	454,304,693
FINANCE COSTS - notes 11 and 19	(1,115,336)	(576,785)	(590,829)
INCOME (LOSS) BEFORE TAX	(17,306,085)	110,370,692	435,807,248
INCOME TAX EXPENSE - note 18			
Current	(763,187)	(2,588,233)	(243,698)
Deferred	—	—	—
	(763,187)	(2,588,233)	(243,698)
NET INCOME (LOSS) FOR THE YEAR	(P 18,069,272)	P 107,782,459	P 435,563,550
EARNINGS (LOSS) PER SHARE - note 23	(P 0.0055)	P 0.0329	P 0.1330

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

	Capital Stock (Note 13)	Additional Paid-in Capital	Deficit (note 1)	Treasury Stock (Note 13)	Total
Balance at January 1, 2015	P 3,276,045,637	P 24,492,801	(P 2,479,053,443)	(P 10,000)	P 821,474,995
Net income for the year	—	—	435,563,550	—	435,563,550
Balance at December 31, 2015	3,276,045,637	24,492,801	(2,043,489,893)	(10,000)	1,257,038,545
Net income for the year	—	—	107,782,459	—	107,782,459
Impairment loss on advances to disposed subsidiaries eliminated in prior years' consolidation - note 5	—	—	(52,426,878)	—	(52,426,878)
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	P 3,276,045,637	P 24,492,801	(P 2,006,203,584)	(P 10,000)	P 1,294,324,854

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax	(P 17,306,085)	P 110,370,692	P 435,807,248
Adjustments for:			
Depreciation - notes 8 and 10	14,759,692	16,324,468	16,528,865
Impairment loss on:			
Trade and other receivables - note 5	—	5,650,320	—
Investment properties - note 8	—	—	29,087,993
Property and equipment - note 10	—	—	17,893,083
Gain on:			
Sale of investment in subsidiaries - note 16	—	(122,584,899)	—
Sale of investment property - notes 8 and 16	—	(12,994,252)	—
Disposal of interest in joint operation - notes 9 and 16	—	—	(1,590,690)
Reversal of allowance for impairment loss on:			
Investment properties - note 8	—	—	(337,293,585)
Interest in joint venture - note 9	—	—	(159,583,954)
Reversal of accounts payable and other liabilities	—	—	(2,759,361)
Provision for retirement benefits - note 17	41,700	41,700	41,700
Finance costs - notes 11 and 19	1,115,336	576,785	590,829
Interest income - note 4	(6,071)	(10,854)	(8,805)
Operating loss before working capital changes	(1,395,428)	(2,626,040)	(1,286,677)
Increase in:			
Trade and other receivables	(2,200,126)	(3,860,721)	(12,158,740)
Prepaid taxes	(399,674)	(2,199,802)	(839,095)
Increase (decrease) in:			
Accounts payable and other liabilities	(258,930)	8,433,442	3,973,187
Advances from lessees	322,218	324,145	350,069
Net cash used in operations	(3,931,940)	71,024	(9,961,256)
Interest received	6,071	10,854	8,805
Income tax paid	(763,186)	(2,643,420)	(188,511)
Net cash used in operating activities	(4,689,055)	(2,561,542)	(10,140,962)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of advances to related parties	16,032,223	—	3,769,015
Grant of advances to related parties	—	(13,189,889)	—
Acquisition of available-for-sale financial assets - note 7	(12,500,000)	—	—
Proceeds from sale of interest in joint operation - note 9	—	—	11,784,690
Proceeds from sale of investment in subsidiaries - note 16	—	18,994,500	—
Proceeds from sale of investment properties - note 8	—	33,071,462	—
Additions to investment properties - note 8	—	(19,288,605)	—
Additions to property and equipment - notes 10 and 25	—	—	(22,858)
Net cash generated from investing activities	3,532,223	19,587,468	15,530,847

Forward

Continue

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of advances from related parties - note 19	1,107,831	—	—
Payments of advances from related parties	—	(17,585,094)	(4,032,406)
Payment of borrowings - note 11	(159,619)	(159,447)	(145,412)
Finance cost paid	(1,115,336)	(22,869)	(36,912)
Net cash provided by (used in) financing activities	(167,124)	(17,767,410)	(4,214,730)
NET INCREASE (DECREASE) IN CASH	(1,323,956)	(741,484)	1,175,155
CASH - note 4			
At beginning of year	3,752,995	4,494,479	3,319,324
At end of year	₱ 2,429,039	₱ 3,752,995	₱ 4,494,479

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As at and for the years December 31, 2017, 2016 and 2015

1. CORPORATE INFORMATION, STATUS OF OPERATIONS AND MANAGEMENT PLANS

Wellex Industries Incorporated (the 'Parent Company') was incorporated in the Philippines on October 10, 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, 2050 and 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 its warehouse/ 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.

The consolidated financial statements as at and for the year ended December 31, 2017, including its comparatives for 2016, were authorized and approved for issue by the Board of Directors (BOD) of the Parent Company on March 26, 2018.

Status of Operations and Management Plans

The accompanying 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 ₱2,006,203,584, ₱1,988,134,312 and ₱2,043,489,893 as at December 31, 2017, 2016 and 2015, 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.

The subsidiaries ceased its manufacturing operations in prior years from 2000 to 2002 due to the Asian crises and stiff business competition, and had leased out its building facilities.

Corporate Rehabilitation

The Plastic City Industrial Corporation (PCIC) subsidiaries' investment properties were used as collateral to secure loans obtained by the PCIC's subsidiaries and its related parties (the 'Group'), 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 default to settle the outstanding obligations by the Group and its related parties, on October 28, 2010, PCIC subsidiaries, Inland Container Corp. (ICC), Pacific Plastic Corp. (PPC), and Kennex Container Corp. (KCC) (the 'Petitioners') filed a petition for corporate rehabilitation (the "Plan") before the Regional Trial Court of Valenzuela (RTC) by authority 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.

The Plan should be implemented over a span of five (5) years, with the Group to expect gross income projection of P4.214 billion from 2011 to 2015, assuming the Plan was immediately approved. The Plan entails the following: (a) capital restructuring; (b) debt restructuring; (c) reconditioning of machinery and equipment; (d) implementation of sales plan; and (e) joint venture for the real estate conversion from industrial to commercial and residential.

On June 7, 2011, PNB filed a motion to dismiss the Plan, however, the RTC issued on July 27, 2011, an order denying the motion to dismiss filed by PNB since it was a prohibited pleading.

On August 31, 2011, a motion to dismiss was filed by BDO joining the previous motion to dismiss filed by PNB. On September 24, 2012, the Group had fully settled its loan with BDO, including all accrued interest.

On December 17, 2012, the Petitioners filed a revised Plan (which supersedes the first Plan) before the Court. Incorporated in the revised Plan is the Memorandum of Agreement (MOA) entered into by the Parent Company and other related parties with Avida Land Corp. (ALC), on the same date, for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, and house and lots. Out of the total 21.3 hectares, 12.8 hectares (representing 60% of the aggregate area) was owned by the Petitioners, and around 8.47 hectares were mortgaged to PNB to secure the loan with an outstanding balance of P4.01 billion which includes interest, litigation expense, penalties, attorney's fee and other charges as at December 31, 2013. The projected future gross cash flows from the implementation of the revised plan amounted to P916.4 million over a nineteen (19) year time frame based on agreed sharing scheme.

On January 31, 2013, the Receiver submitted its comment on the revised Plan and requested the RTC to order the parties to negotiate and explore realistic and mutually acceptable rehabilitation plan.

In 2013, several enhancements of the revised Plan were discussed by the Petitioners and PNB.

On January 15, 2014, a conference prior to the resolution of the case was held among the Petitioners, PNB, BDO and the Rehabilitation Receiver. One of the topics covered, among others, was the presentation of Revised Rehabilitation Proposal letter by Novateknika Land Corp. (NLC) (borrower of PNB of which the properties by Petitioners were used to secure the loan of NLC) to PNB dated December 6, 2013. The terms of the proposal, among others are the following:

- P700 million to be paid within a period of 120 days from the acceptance of the offer; and
- All properties and collaterals mortgaged to PNB, including Quirino Manila, Valenzuela and Davao to be returned to their respective debtors or mortgagors.

In a letter dated February 3, 2014 by the Rehabilitation Receiver to the RTC, the Receiver mentioned that efforts were exerted to find a mutually acceptable plan of payment. However, the firm stand of PNB to be paid in full amount of P4 billion and liquidate the mortgaged properties served as barriers.

The Rehabilitation Receiver also reiterates the recommendations made in the Report dated November 28, 2013:

1. PNB will be paid at an amount substantially more than liquidating the mortgaged properties. At its present use, the mortgaged properties of PNB can command a price of P254 million against payment of P600 million plus interest. Of the P600 million to be paid, P200 million will be paid upfront and balance of P400 million over a period of five (5) years at 5 % p.a. interest rate. There will be no opportunity losses for PNB even if the P400 million will be amortized as interest is being paid. As to the latest proposal made by NLC increasing the loan amount to be paid at P700 million (in this Corporate Rehabilitation proceedings the proposal is for P600 million) with the condition to release the mortgages in Valenzuela, Quirino, Manila and Davao City, Rehabilitation Receiver has no means of fully evaluating the latest proposal with the additional condition of releasing the mortgages in Quirino, Manila and Davao City.
2. Approval of the Rehabilitation Plan will pave the way for the development of the Plastic City Compound into a residential community which will not only benefit PNB but also the Petitioners and other property owners in the compound.
3. Given that PNB will be granted its motion to convert the proceedings to one of the liquidation and ultimately foreclose and take possession of the mortgaged properties, it will be quite difficult for PNB to immediately sell or develop the same as it seems that the mortgaged properties are land locked and situated in the mid to inner part of the Plastic City Compound.

On October 20, 2014, the RTC issued an order which disapproved the enhanced rehabilitation plan of Petitioners and converted the rehabilitation case into liquidation. The RTC also issued an order which declared the Petitioners insolvent, ordered the liquidation of the assets of the Petitioners, and directed the sheriff to immediately take possession and safely keep all real and personal properties until the appointment of liquidator.

On December 15, 2014, the Petitioners filed a Petition for Review with the Court of Appeals (CA) assailing the RTC's decision on October 20, 2014. However, on December 15, 2015, the CA denied the petition and affirmed the decision of the RTC.

On January 22, 2016, a Motion for Reconsideration (MR) was filed with the CA by the Petitioners praying that its decision be reversed and set aside. However, on July 4, 2016, the CA denied the MR. Hence, on August 11, 2016, the Petitioner's filed a Petition for Review before the Supreme Court (SC).

On November 4, 2016, the Petitioner's received the resolution dated September 14, 2016 of the Supreme Court, denying the petition for review. On November 21, 2016, the Petitioner filed a Motion for Reconsideration of the said resolution. On February 28, 2017, upon Petition of PNB, the RTC issued an order allowing the suspension of action in the proposed liquidation plan until after the comments of the creditors with regard to the amount of remaining obligation after foreclosure are taken into consideration in the liquidation plan. On March 1, 2017, the RTC issued an order granting PNB to continue with the foreclosure proceedings. On October 4, 2017, the Supreme Court resolves to deny the Motion for Reconsideration with finality.

On January 24, 2018, the RTC rendered a decision ordering NLC and some of the stockholders jointly and solidarily liable to pay PNB amounting to P593 million with interest of 12% per annum from date of default, 24% penalty per annum and P3 million attorney's fees, less the proceeds of the auction sale of P119 million. On March 20, 2018 in order to terminate the proceedings and to finalize the settlement of all obligations of the Group to PNB, including, but not limited to the judgment of RTC, the Group entered into a Settlement Agreement with PNB to pay P950 million (the 'Settlement Amount') payable in two (2) tranches (P850 million upon execution of the Settlement Agreement and P100 million thirty (30) days after). Once PNB receive the Settlement Amount, it shall release the titles and issue the corresponding Cancellation of Mortgage of its lien over Davao and Valenzuela properties of the Group. Also, PNB shall sell the Quirino, Manila properties to NLC for a consideration of P170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC are hereby mutually, irrevocably, freely and voluntarily release and forever discharge one another, including their principals, affiliates, subsidiaries, owners, directors, officers, managers, successors-in-interest, agents, representatives, and/or assigns, from any and all claims, suits, and causes of actions of whatever kind and nature, disclosed or undisclosed, pending or potential, which in law or equity they had, now have, or may have against each other, directly or indirectly arising out of, wholly or partially from, or related to or incidental to any of the facts, issues, or disputes involved in above cases, all of which claims, suits and causes of action the parties hereby relinquish, abandon, waive, save for such cause(s) of action that a party hereto may have against the other arising out of the said Settlement Agreement.

On the same date, the Group issued a check payable to PNB amounting to P850 million.

In this regard, the Group plans to pursue the development of the properties in Valenzuela City into residential clusters of condominium, townhouses, house and lots. Meanwhile, the Company will explore other business opportunities and assess and review its financial status. A capital infusion and build-up program is also contemplated in order to breathe life into the consolidated statements of financial position. The size and timing thereof will be directly related to the planned entry into both the mining and the real estate (industrial estate) sectors. The eventual outcome of these matters cannot be determined as at reporting date.

Consequently, the consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The 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.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2017.

PAS 7 (Amendment), Statement of Cash Flows – Disclosure Initiative. The amendment requires to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments resulted in disclosure of a reconciliation of liabilities arising from financing activities, reflecting both changes arising from cash flows and non-cash changes. The transitional provisions of these amendments provide exemption from presenting comparative information upon its initial application. Consequently, the comparative information for the preceding period is not presented on the Parent Company's consolidated financial statements (see Note 28).

PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses. These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments have no material impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

New Accounting Standards and Amendments to Existing Standards Effective Subsequent to January 1, 2017

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

Annual Improvements to PFRS 2014-2016 Cycle

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendments to PFRS 1 and PAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to PAS 28 shall be applied retrospectively with earlier application permitted. The amendment to PFRS 12 is effective for the current year.

The annual improvements addressed the following issues:

PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters. The amendment deleted some short-term exemptions for first-time adopters and the related effective date paragraphs as the reliefs provided were no longer applicable and had been available to entities only for reporting periods that had passed.

PAS 28 (Amendments), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value. The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The application of the above improvements will have no impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PAS 40 (Amendments), Investment Property – Transfers of Investment Property. The amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The application of the amendments provides two options for transition: (a) An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments; or (b) retrospective application if, and only if, that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

PFRS 2 (Amendments), Share-based Payment - Classification and Measurement of Share-based Payment Transactions. The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled; (b) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments are effective for annual periods beginning on or after January 1, 2018, 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 4 (Amendments), Insurance Contracts - Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

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

PFRS 9, Financial Instruments (2014). The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the consolidated financial statements as the Group's AFS financial assets will continue to be measured at fair value with fair value recognize in the other comprehensive income, and other financial assets and liabilities pertains only to debt securities that will continue to be measured at amortized cost.

PFRS 15, Revenue from Contracts with Customers. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard will not have an impact in the measurement, recognition and disclosure of the Group's revenue.

PFRS 15 (Amendments), Revenue from Contracts with Customers – Clarifications to PFRS 15 Revenue from Contracts with Customers. This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration. This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. This interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The interpretation will have no material impact on the Group's consolidated financial statements.

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

The adoption of the standard will have an impact on recognition of lease expenses, noncurrent assets and liabilities.

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.

Subsidiaries	Principal Activity	Ownership	
		2017	2016
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%

Subsidiaries are entities which the Parent Company has the power to control the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Control exists when the Parent Company is exposed, or has rights, to variable returns from the involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

Subsidiaries are fully consolidated from the date on which the Parent Company obtains control. Consolidation ceases when control is transferred out of the Group. The operating results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate. A change in ownership interest of a subsidiary, without a change in control is accounted for as an equity transaction.

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

a) Direct ownership

Philfoods Asia, Incorporated

Philfoods started commercial operations in 2000 and was suspended in 2002. On March 15, 2016, the Parent Company sold its investment in Philfoods for a total consideration of P6,249,975.

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.

MPC Plastic Corporation (MPC)

MPC was incorporated in the Philippines and registered with the SEC on October 11, 1984. The Company was established for the purpose of producing various kinds of plastic products. The Company ceased its commercial operations in January 1994. On March 15, 2016, the Parent Company sold its investment in MPC for a total consideration of ₱2,500,000.

Weltex Industries Corporation (WIC)

WIC was incorporated in the Philippines and registered with the SEC on July 19, 1994. The Company was established to engage in the business of manufacturing PVC pipes, PVC fittings, PE pipes, PE tubings, PE fittings, PB tubings and fittings, water meters, hand pumps, cast iron and other metal accessories, including their components and by-products. The Company ceased its commercial operations on April 30, 2002. On March 15, 2016, the Parent Company sold its investment in WIC for a total consideration of ₱6,249,250.

After the subsidiaries ceased commercial operation they had not resumed thereon. The subsidiaries were all located at T. Santiago Street, Canumay, Valenzuela City.

Financial Instruments

Initial Recognition, Measurement and Classification of Financial Instruments

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.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Group classifies its financial assets in the following categories: (a) financial assets at FVPL, (b) loans and receivables, (c) held-to-maturity (HTM) investments and (d) available-for-sale (AFS) financial assets. The Group also classifies its financial liabilities into (a) financial liabilities at FVPL and (b) other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market.

Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income.

As at December 31, 2017 and 2016, the Group did not hold any financial assets at FVPL, and HTM investments, and financial liabilities at FVPL.

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.

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.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the Group’s consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. 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, 2017 and 2016, included under loans and receivables are the Group's cash, trade and other receivables, advances to related parties and installment contract receivable (see Notes 4, 5, 19 and 22).

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gain or loss being recognized in other comprehensive income as "Unrealized fair value gain (loss) on AFS", net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the statements of comprehensive income as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated statements of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial assets previously recognized in the statements of comprehensive income.

Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the statements of comprehensive income when the right of payment has been established. These consolidated financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the end of reporting period.

The Company's AFS financial assets include investment in unquoted shares of stocks which is stated at cost less impairment since there is no quoted price in an active market as at December 31, 2017 (see Note 7).

Other Financial Liabilities

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer) while nontrade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as noncurrent liabilities. Gains and losses are recognized in the Group statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2017 and 2016, included in other financial liabilities are the Group's borrowings, accounts payable and other liabilities, advances from related parties and advances from lessees (see Notes 11, 12, 19 and 21).

Borrowings and Borrowing Cost

(a) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method. Difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve (12) months after the reporting date.

(b) Borrowing cost

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

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

AFS financial assets

For AFS financial assets, the Parent Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the consolidated statements of comprehensive income.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as AFS financial assets, increase in fair value after impairment is reversed in consolidated statements of comprehensive income.

Prepaid Taxes

This account comprises of creditable withholding taxes and unused input value-added tax (VAT). Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

Input VAT is the indirect tax paid by the Group on the local purchases of goods and services from a VAT-registered person.

Claims for input VAT and creditable withholding taxes are stated at fair value less provision for impairment, if any. Allowance for unrecoverable input VAT and creditable withholding taxes, if any, is 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 losses.

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 period.

Property and equipment are recognized when probable future economic benefits associated with the property and equipment will flow to the Group and the amount can be measured reliably. 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 amortization 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 and amortization 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

The useful lives and depreciation and amortization method are reviewed annually to ensure that the period and method of depreciation and amortization 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 amortization 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 and amortized property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization 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

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 increased 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

Equity instruments are measured 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

Own equity instruments which are reacquired (treasury shares) 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, net of discounts, returns and value added taxes and when specific criteria have been met.

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 statement 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 are 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 which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statements of financial position at amounts equal to the fair value of the leased property, or if lower, at the present value of minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in the statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Group is a party to operating leases as a lessor and lessee. Payments made under operating leases (net of any incentives) are charged to profit or loss on a straight-line basis over the period of the lease.

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). The Group has 9 employees as at December 31, 2017 and 2016, respectively. 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 20.

Earnings (Loss) Per Share

Earnings (loss) per share are determined by dividing net income (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 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:

Functional currency

The Group considers the Philippine peso (P) as the currency that most fairly represents the economic effect of the underlying transactions, events and conditions. The Philippine peso (P) is the currency of the primary economic environment in which the Group operates. It is the currency in which the Group measures its performance and reports its operating results.

Operating lease commitments

Group as lessee

The Group has entered into contract of lease for some of the office space it occupies. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group accordingly accounted for the lease agreement as operating lease.

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, 2017 and 2016, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱2,426,559 and ₱2,165,411 as at December 31, 2017 and 2016, respectively (see Note 6).

Impairment of prepaid taxes

Management believes that prepaid taxes are fully realizable since the Group is expecting that its reportable segment will generate income subject to output tax. Consequently, no provision has been provided on its prepaid taxes as at December 31, 2017 and 2016.

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 20).

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in the following section.

Allowance for doubtful accounts

Allowance is made for specific group of accounts where objective evidence of impairment exists. The factors considered by management in the review of the current status of its receivables are (1) length and nature of their relationship and its past collection experience, (2) financial and cash flow position and (3) other market conditions as at reporting date. Management reviews the allowance on a continuous basis.

Allowance for doubtful accounts on trade receivables was determined based on the full amount of receivable collectible from specific customers. For advances to related party, The Wellex Group, Inc. (TWGI), the amount of allowance is based on percentage of total receivable determined to be doubtful of collection at the time the allowance was provided.

The Company's receivables (including advances to related parties and installment contract receivable) has a carrying value of P242,445,923 and P260,483,661 as at December 31, 2017 and 2016, net of allowance for doubtful accounts of P58,077,198, respectively (see Notes 5, 19 and 22).

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, 2017 and 2016 are as follows:

	2017	2016
Property and equipment - note 10	P 15,190,779	P 28,372,497
Investment properties - note 8	60,164,565	61,742,539
	P 75,355,344	P 90,115,036

Impairment of non-financial assets

Non-financial assets are periodically reviewed to determine any indications 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 P237,408,239, P47,641,000 and P80,120,199, respectively, as at December 31, 2017 and 2016 (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, 2017 and 2016, amounted to P625,500 and P583,800, respectively (see Note 17). 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, 2017 and 2016, the Group's deferred tax assets with full valuation allowance are fully disclosed in Note 18.

4. **CASH**

Cash as at December 31 are as follows:

	2017	2016
Cash on hand	₱ 20,000	₱ 20,000
Cash in bank	2,409,039	3,732,995
	₱ 2,429,039	₱ 3,752,995

Cash in bank earns interest at the respective bank deposit rate ranging from 0.16% to 0.24% per annum in 2017 and 2016. Interest income earned from deposit amounted to ₱6,071 and ₱10,854 in 2017 and 2016, respectively (see Note 16).

There is no restriction on the Group's cash as at December 31, 2017 and 2016.

5. **TRADE AND OTHER RECEIVABLES**

Trade and other receivables as at December 31 are as follows:

	2017	2016
Advances to third parties	₱113,787,725	₱116,679,991
Trade receivable - note 19	11,215,841	11,215,841
Rental receivable – note 21	3,056,377	1,948,875
Utilities receivable	279,565	221,504
Others	13,869	47,134
	128,353,377	130,113,345
Allowance for doubtful accounts	(58,077,198)	(58,077,198)
	₱70,276,179	₱72,036,147

Advances to third parties represent receivable from a previously disposed subsidiaries.

Other receivables include advances to employees and reimbursable expenses from PCIC subsidiaries' tenants.

The movement of the allowance for doubtful accounts is as follows:

	2017	2016
At beginning of year	₱58,077,198	₱52,426,878
Provisions during the year	–	5,650,320
At end of year	₱58,077,198	₱58,077,198

Allowance for doubtful accounts represents allowance on advances to disposed subsidiaries eliminated in the prior years' consolidation.

The Group's receivables as at December 31, 2017 and 2016 are not held as collateral for its liabilities and are free from any encumbrances.

The Group believes that the carrying amount of receivables approximates fair value as at December 31, 2017 and 2016.

6. **PREPAID TAXES**

Prepaid taxes as at December 31 are as follows:

	2017	2016
Creditable withholding tax	₱ 9,460,992	₱ 9,322,466
Input VAT	2,426,559	2,165,411
	₱11,887,551	₱11,487,877

As at December 31, 2017 and 2016, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

7. **AFS FINANCIAL ASSETS**

During the year, the Group acquired an investment in unquoted shares of stock in Bulacan Harbour Dev't. Corp. amounting to ₱12,500,000. The investment is classified as AFS financial assets as the Group does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

The Group's AFS financial assets as at December 31, 2017 are not held as collateral for its financial liabilities.

8. **INVESTMENT PROPERTIES (net)**

Details of investment properties as at December 31, 2017 are as follows:

	Land	Land improvements	Buildings and improvements	Total
Cost				
At beginning and end of year	₱ 980,176,630	₱ 3,290,824	₱ 312,179,250	1,295,646,704
Accumulated depreciation				
At beginning of year	–	3,290,824	73,839,122	77,129,946
Depreciation	–	–	1,577,974	1,577,974
At end of year	–	3,290,824	75,417,096	78,707,920
Accumulated impairment loss				
At beginning and end of year	₱ 60,810,650	₱ –	₱ 176,597,589	₱ 237,408,239
Net carrying amounts,				
December 31, 2017	₱919,365,980	₱ –	₱60,164,565	₱ 979,530,545

Details of investment properties as at December 31, 2016 are as follows:

	Land	Land improvements	Buildings and improvements	Total
Cost				
At beginning of year	₱ 999,959,735	₱ 3,290,824	₱ 312,179,250	₱1,315,429,809
Additions	19,288,605	–	–	19,288,605
Disposal	(20,077,210)	–	–	(20,077,210)
Other movements	(18,994,500)	–	–	(18,994,500)
At end of year	980,176,630	3,290,824	312,179,250	1,295,646,704
Accumulated depreciation				
At beginning of year	–	3,290,824	70,773,533	74,064,357
Depreciation	–	–	3,065,589	3,065,589
At end of year	–	3,290,824	73,839,122	77,129,946
Accumulated impairment loss				
At beginning and end of year	₱ 60,810,650	₱ –	₱ 176,597,589	₱ 237,408,239
Net carrying amounts, December 31, 2016	₱919,365,980	₱ –	₱61,742,539	₱ 981,108,519

Rental income earned on the above investment properties amounted to ₱17.49 million, ₱14.96 million and ₱15.24 million for the years ended December 31, 2017, 2016 and 2015 (see Note 21), respectively. While direct operating expenses incurred on the buildings such as repairs and maintenance, security, insurance and property tax, and depreciation expenses amounted to ₱11 million, ₱9.46 million and ₱7.46 million in 2017, 2016 and 2015 respectively, shown under “Direct costs and expenses” in the statements of comprehensive income (see Note 14).

The carrying amount of the buildings being leased out is ₱26,354,423 and ₱27,055,972 as at December 31, 2017 and 2016, respectively (see Note 21).

Other movements pertain to investment properties of disposed subsidiaries in 2016.

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.

Based on the recent appraisal conducted by an independent appraiser, the fair value of building and improvements as at December 31, 2015 amounted to ₱64,808,128. The fair value is determined to be lower than its cost, accordingly, the Group recognized impairment loss on building and improvements amounting to ₱29,087,993 (see Note 16). The fair value of land as at December 31, 2016 and 2015 amounted to ₱919,365,980 and ₱939,149,085, which is higher than its carrying amount. Previously recognized impairment loss was reversed to the extent of the lands market value. The Group recognized reversal of previously recognized impairment loss amounting to ₱337,293,585 (see Note 16).

The Group’s land with aggregate carrying amount of ₱651,901,500 as at December 31, 2017 and 2016 are subject properties under the MOA with ALC as disclosed in Note 22. Under the terms of the MOA, the Group shall transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances. Pursuant to these terms, the Group has contracted a third party for the demolition of certain buildings located in the subject properties. As at December 31, 2017, properties covered by the MOA has not been transferred to ALC pending the resolution of corporate rehabilitation filed by the Group (see Note 1).

Land with an aggregate carrying amount of ₱381,136,506 as at December 31, 2017 and 2016, are mortgaged with PNB to secure the loans obtained by related parties (see Notes 1 and 19).

On April 2016, the Group sold its land with carrying amount of P20,077,210 for a total consideration of P33,071,462 which resulted to a gain of P12,994,252 (see Note 16).

The fair value information of investment property is disclosed in Note 27.

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:

	2017	2016
Cost		
Balance at beginning and end of year	P590,214,111	P590,214,111
Accumulated impairment loss		
At beginning and end of year	47,641,000	47,641,000
Net carrying amounts, December 31	P542,573,111	P542,573,111

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 P159,583,954 was reversed in 2015. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

The Group recognized revenue amounting to P1,590,690 representing its share in the sale of joint venture lots in 2015 (see Note 16). As at December 31, 2017 and 2016, outstanding receivable from PHES amounted to P10,897,335, respectively, which pertain to the Group's share in the sale of lot net of expenses (see Note 19).

No revenue and expenses recognized in relation to the joint venture in 2017 and 2016.

10. **PROPERTY AND EQUIPMENT** (net)

The reconciliation of property and equipment (net) as at December 31, 2017 as follows:

	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Total
Cost					
At beginning and end of year	P 800,000	P547,522,657	P8,203,282	P8,828,122	P565,354,061
Accumulated depreciation					
At beginning of year	P 800,000	P439,228,176	P8,017,766	P8,815,423	P456,861,365
Depreciation		12,988,583	185,516	7,619	13,181,718
Balance at end of year	800,000	452,216,759	8,203,282	8,823,042	470,043,083
Impairment loss					
At beginning and end of year	P -	80,120,199	P -	-	80,120,199
Net carrying amounts, December 31, 2017	P -	P 15,185,699	P -	P 5,080	P 15,190,779

The reconciliation of property and equipment (net) as at December 31, 2016 as follows:

	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Total
Cost					
At beginning of year	P 18,898,995	P 883,287,076	P 14,935,512	P 10,350,377	P 927,471,960
Other movements	(18,098,995)	(335,764,419)	(6,732,230)	(1,522,255)	(362,117,899)
Balance at end of year	800,000	547,522,657	8,203,282	8,828,122	565,354,061
Accumulated depreciation					
At beginning of year	P 7,740,708	P 631,473,121	P 14,547,616	P 10,227,896	P 663,989,341
Depreciation	9,250	13,050,410	191,600	7,619	13,258,879
Other movements	(6,949,958)	(205,295,355)	(6,721,450)	(1,420,092)	(220,386,855)
Balance at end of year	800,000	439,228,176	8,017,766	8,815,423	456,861,365
Impairment loss					
Balance at beginning	P 7,069,958	P 210,600,049	-	P 102,162	P 217,772,169
Other movements	(7,069,958)	(130,479,850)	-	(102,162)	(137,651,970)
Balance at end of year	-	80,120,199	-	-	80,120,199
Net carrying amounts, December 31, 2016	P -	P 28,174,282	P 185,516	P 12,699	P 28,372,497

Total depreciation charged to operation amounted to P13,181,718, P13,258,879 and P13,466,457 in 2017, 2016 and 2015, respectively (see Note 15).

Other movements pertain to property and equipment of disposed subsidiaries in 2016.

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 with a carrying amount of P185,516 as at December 31, 2016, was used as collateral to secure payment of borrowings (see Note 11). The loan was fully paid in 2017.

The Group's machinery and equipment was appraised on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. Based on the appraisal, the fair value of machinery and equipment amounted to P31,376,000. The fair value of machinery and equipment were determined to be lower than its carrying amount. Decline in value of machineries and equipment amounted to P17,893,083 was recognized in 2015 and was shown under 'Other income - net' (see Note 16).

The Group has no contractual commitment to acquire property and equipment as at December 31, 2017 and 2016.

11. **BORROWINGS**

The Group entered into a loan agreement with a local bank amounting to P476,000 on November 27, 2014, to finance the acquisition of transportation. The loans carry an interest of 9.25% per annum or a total financing charges P70,948 which approximates the market rate. The principal and the financing charges are payable in 36 monthly installments of P15,193 or a total of P546,948.

The outstanding balance of borrowings as at December 31, 2017 and 2016 amounted to Nil and P159,619, respectively.

The carrying amount of transportation equipment used as collateral to secure payment of borrowings amounted to Nil and P185,516 as at December 31, 2017 and 2016, respectively (see Note 10).

The Group's borrowings is not subject to any significant loan covenants.

Finance costs charged to operations amounted to P7,505 and P22,869 for the years ended December 31, 2017 and 2016, respectively.

The management believes that the carrying amount of the borrowings approximates their fair value.

12. **ACCOUNTS PAYABLE AND OTHER LIABILITIES**

Accounts payable and other liabilities as at December 31 are as follows:

	2017	2016
Government liabilities	P 6,750,788	P 7,176,894
Accounts payable	2,389,490	6,101,539
Deferred rental – note 21	1,819,955	2,146,371
	P10,960,233	P15,424,804

Government liabilities pertains 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 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.

The Group believes that the carrying amount of accounts payable and other liabilities approximates fair value as at December 31, 2017 and 2016.

There were no assets of the Group that were collateralized for the above accounts payable and other liabilities as at December 31, 2017 and 2016.

13. **CAPITAL STOCK**

Details of the Parent Company's capital stock as at December 31, 2017 and 2016 are as follows:

	2017	2016	2015
Authorized – 3,500,000,000 shares at P1 par value per share	P 3,500,000,000	P 3,500,000,000	P 3,500,000,000
Issued and fully paid – 3,276,045,637 shares at P1 par value per share	P 3,276,045,637	P 3,276,045,637	P 3,276,045,637
Treasury stock – 10,000 shares	(10,000)	(10,000)	(10,000)
	P 3,276,035,637	P 3,276,035,637	P 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 P75 million divided into 75 million shares to P15 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 P15 million divided into 15 million shares to P1 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 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 P0.01 to P1.00, removing the pre-emptive rights of shareholders and increasing the authorized capital stock from P500 million divided by 50 billion shares with a par value of P0.01 per share to P2.0 billion divided into 2.0 billion shares with a par value of P1.00 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 P2.0 billion to P3.5 billion divided into 3.5 billion shares with a par value of P1.00 per share. On March 11, 1998, the SEC approved the increase in the Parent Company's authorized capital stock.

As at December 31, 2017, 2016 and 2015, the Parent Company has outstanding 3,276,035,637, shares under its name. The remaining unconverted shares under REDECO as at December 31,

2017, 2016 and 2015, is 4,107,457. Outstanding shares owned by the public as at December 31, 2017, 2016 and 2015 is 1,413,523,748.

The historical market values of the Group's shares as published in the PSE are as follows:

	Market value per share
December 31, 2017	P 0.19
December 31, 2016	0.19
December 31, 2015	0.21

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.

14. DIRECT COSTS AND EXPENSES

Direct costs and expenses for the years ended December 31 are as follows:

	2017	2016	2015
Property taxes	P 5,293,030	P2,400,930	P 419,138
Security services	3,660,347	3,660,347	3,660,347
Depreciation - note 8	1,577,974	3,065,589	3,062,408
Repairs and maintenance	458,450	321,429	298,996
Insurance	11,778	12,899	16,231
	P11,001,579	P9,461,194	P7,457,120

15. OPERATING EXPENSES

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

	2017	2016	2015
Depreciation - note 10	P13,181,718	P13,258,879	P 13,466,457
Professional fees	2,341,000	2,914,405	3,899,113
Salaries and wages	2,081,347	2,339,542	2,479,816
Taxes and licenses	1,724,078	1,724,966	2,538,064
Communication, light and power	899,943	1,185,891	974,801
Listing and maintenance fee	666,335	327,362	288,714
Commission	515,625	541,674	530,464
Security service	488,385	488,046	488,046
Rent - note 19	150,000	150,000	150,000
SSS, Medicare and EC contributions	116,048	115,718	139,568
Transportation and travel	60,153	68,380	62,426
Office supplies and stationaries	13,647	24,430	82,682
Miscellaneous	770,039	1,561,715	587,438
	P23,008,318	P24,701,008	P 25,687,589

16. **OTHER INCOME** - net

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

	2017	2016	2015
Gain on sale of:			
Investments in subsidiaries	P –	P122,584,899	P –
Investment properties – note 8	–	12,994,252	–
Interest income – note 4	6,071	10,854	8,805
Reversal of impairment loss on:			
Investment properties – note 8	–	–	337,293,585
Joint venture – note 9	–	–	159,583,954
Reversal of accounts payable	–	–	2,759,361
Share on sale of joint operation lots – note 9	–	–	1,590,690
Miscellaneous income	321,429	321,429	53,571
Bad debts – note 5	–	(5,650,320)	–
Impairment loss on:			
Investment properties – note 8	–	–	(29,087,993)
Property and equipment – note 10	–	–	(17,893,083)
Other charges	(145)	(109,074)	(4,197)
	P 327,355	P130,152,040	P 454,304,693

The following is the details of the gain on sale of investments in subsidiaries in 2016:

Proceeds from sale	P 18,994,500
Capital deficiencies of disposed subsidiaries	103,590,399
Gain on sale of investments in subsidiaries	P122,584,899

17. **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:

	2017	2016	2015
Balance at beginning of year	P 583,800	P 542,100	P 500,400
Provision for retirement	41,700	41,700	41,700
Balance at end of year	P 625,500	P 583,800	P 542,100

The provision for retirement benefits in 2017, 2016 and 2015 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.

18. **INCOME TAX**

Reconciliation of tax expense

The reconciliation of pretax income computed at the regular corporate income tax rate to the income tax expense as shown in the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Income (loss) before tax	(P17,306,084)	P110,370,692	P 435,807,248
Tax expense (benefit) at 30%	(P 5,191,825)	P33,111,208	P 130,742,174
Tax effect on:			
Non-deductible expenses	169,510	6,407,107	522,617
Non-deductible portion of interest expense	339	778	647
Interest income	(1,820)	(3,093)	(2,632)
Non-deductible depreciation on appraisal increase	—	1,040,473	1,512,510
Gain on sale of investment in subsidiaries	—	(36,775,470)	—
NOLCO	3,188,494	6,120,018	—
MCIT	515,910	24,676	—
Changes in unrecognized deferred tax assets	2,082,579	(7,337,464)	(132,531,618)
	P 763,187	P2,588,233	P 243,698

The component of the Group's deferred tax assets as at December 31 are as follows:

	2017	2016
NOLCO	P14,871,998	P12,815,138
Allowance for:		
Doubtful accounts	34,884,901	34,884,901
Impairment loss	109,550,831	109,550,831
Accrued retirement benefits	187,650	175,140
MCIT	211,308	198,099
Total	159,706,688	157,624,109
Unrecognized deferred tax assets	(159,706,688)	(157,624,109)
	P —	P —

As at December 31, 2017, 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
2017	2020	P —	P19,017,250	P —	P —	P19,017,250
2016	2019	18,379,447	—	—	—	18,379,447
2015	2018	12,176,626	—	—	—	12,176,626
2014	2017	12,161,053	—	(12,161,053)	—	—
		P42,717,126	P19,017,250	(P12,161,053)	P —	P49,573,323

As at December 31, 2017, 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
2017	2020	P –	P69,299	P –	P –	P69,299
2016	2019	37,004	–	–	–	37,004
2015	2018	105,005	–	–	–	105,005
2014	2017	45,296	–	(10,863)	(34,433)	–
		P187,305	P69,299	(P 10,863)	(P 34,433)	P211,308

19. 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 Receivable (Note 5)		Terms and condition
	2017	2016	2017	2016	
Receivable from related parties with common key management					
PHES	P	–	P1,697,355	P 10,897,335	(a)
Genwire Manufacturing Corp. (GMC)		–		318,506	(b)
	P	–	P1,697,355	P 11,215,841	

	Amount/Volume		Advances to related parties		Terms and condition
Category	2017	2016	2017	2016	
Advances to related parties with common key management					
Polymax Worldwide Limited (PWL)	P –	P –	P105,060,000	P105,060,000	(c)
TWGI					
Cash advances	(14,955,789)	13,046,491	64,254,759	79,938,363	(c)
Consultancy fee	(480,000)	(480,000)	–	–	(c)
Rental and utilities	(247,815)	(247,815)	–	–	(c)
Concept Moulding Corp. (CMC)	(594,167)	3,178,021	3,743,894	4,338,061	(c)
	(16,277,771)	15,496,697	173,058,653	189,336,424	
Allowance for impairment	–	–	(58,205,806)	(58,205,806)	
	(P16,277,771)	P15,496,697	P114,852,847	P131,130,618	

Category	Amount/Volume		Advances from related parties		Terms and conditions
	2017	2016	2017	2016	
Advances from related parties with common key management					
Diamond Stainless Corp. (DSC)	P	—	P	—	(d)
PCC	—	—	P86,916,104	P86,916,104	(d)
International Polymer Corp. (IPC)	—	—	P24,655,300	P24,655,300	(d)
PHES	1,107,831	553,916	P29,923,261	P28,815,430	(d)
KIC	—	—	P23,539,858	P23,539,858	(d)
Rexlon Realty Corp. (RRC)	—	—	P23,187,370	P23,187,370	(d)
Pacific Rehouse Corp. (PRC)	—	—	P15,540,753	P15,540,753	(d)
Ropeman Int'l Corp.	—	—	P3,202,528	P3,202,528	(d)
	1,107,831	553,916	P339,811,397	P338,703,566	
Advances from stockholders/key management					
Key management and officers	—	(4,703,144)	P158,118,794	P158,118,794	(e)
	P1,107,831	(P4,149,228)	P497,930,191	P496,822,360	

(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 P88.8 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 P71.326 million.

The Group recognized advances to PWL of P105.06 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. The Group did not provide any allowance for impairment for the amount of receivable as the entire amount is deemed collectible.

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. The agreement will expire on April 30, 2016. The agreement was renewed for another two (2) years starting May 1, 2016 to April 30, 2018. Total consultancy fees incurred for the years ended December 31, 2017, 2016 and 2015, amounted to P480,000, shown under 'Professional fees' account in the statements of comprehensive income.
- Lease Agreement for the Group's office space for a monthly rental of P20,000, utilities of P5,000, and storage fee of P1,000 from April 1, 2014 to April 2, 2016. The Agreement was renewed for another two (2) years starting May 1, 2016 to April 30, 2018. Total rent expense and utilities amounted to P150,000 for the years ended December 31, 2017, 2016 and 2015.

The Group originally provides allowance for impairment amounting to P58,205,806 as at December 31, 2017 and 2016 on advances to TWGI prior to agreements entered to settle the outstanding advances. Allowance for impairment will be reversed once the unimpaired portion of advances is substantially collected and upon assessment by the management on the continuity of the existing agreements.

(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) 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.

(f) Collateral properties held by related parties

The Group's investment properties with a carrying amount of P381.14 million as at December 31, 2017 and 2016, were used as collateral to secure loans obtained by related parties (see Note 8).

(g) *Remuneration of key management personnel.*

Directors' fees paid for the years ended December 31, 2017, 2016 and 2015 amounted to P10,000, P33,333 and P44,444, 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.

20. 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 discontinued operations of the manufacturing operation and mining and oil exploration representing the Parent Company 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:

	2017	2016	2015
Revenue of reportable segment	P 17,491,792	P 14,957,638	P 15,238,093
Other income	4,409	8,603	1,598,102
Reversal of allowance of impairment of:			
Investment properties	—	—	314,940,050
Investment in joint operation	—	—	159,583,955
Gain on sale of investment in joint operation	—	—	29,087,993
Depreciation	(1,577,973)	(3,065,589)	(3,062,409)
Direct costs and expenses	(9,423,607)	(6,395,605)	(4,394,420)
Operating expenses	(15,848,591)	(17,586,096)	(10,194,459)
Finance cost	(1,115,336)	(576,785)	(590,821)
Income tax	(756,758)	(233,240)	(187,439)
Segment net loss	(P 11,226,064)	(P 12,891,074)	P 502,018,645
Total segment assets	P1,414,639,645	P1,465,652,534	P1,439,808,876
Expenditure for non-current assets	P —	P —	P 20,318
Total segment liabilities	P 575,379,377	P 577,302,530	P 580,054,189

As at December 31, 2017, 2016 and 2015, the Group has no intersegment revenue to be reported.

The following reconciliations were provided for additional segment information:

Net income (loss)

	2017	2016	2015
Net income (loss) of reportable segment	(P 11,226,064)	(P 12,891,074)	P502,018,645
Net income (loss) of non-reportable segment	(6,843,208)	120,673,533	(66,455,095)
Net income (loss) reported in the consolidated statements of comprehensive income	(P18,069,272)	P107,782,459	P435,563,550

Assets

	2017	2016
Assets of reportable segment	P1,414,639,645	P1,425,652,534
Assets of non-reportable segment	493,622,971	496,608,385
Intercompany receivables eliminated in the consolidation	(101,524,825)	(94,301,415)
Assets reported in the consolidated statements of financial position	P1,806,737,791	P1,827,959,504

Liabilities

	2017	2016
Liabilities of reportable segment	P575,379,377	P577,302,530
Liabilities of non-reportable segment	217,807,741	216,636,001
Intercompany liabilities eliminated in the Consolidation	(280,774,181)	(278,373,153)
Liabilities reported in the consolidated statements of financial position	P512,412,937	P515,565,378

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.

21. 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 P2,897,013 and P2,574,795 as at December 31, 2017 and 2016, respectively. Deferred rental income relative to the lease amounted to P1,819,955 as at December 31, 2017 and P2,146,371 as at December 31, 2016 as shown under 'Accounts payable and other liabilities' account (see Note 12).

The carrying amount of the buildings being leased out is P26,354,423 and P27,055,972 as at December 31, 2017 and 2016, respectively.

Outstanding balance of receivable from tenants as at December 31, 2017 and 2016 amounted to P3,056,377 and P1,948,875, respectively (see Note 5). Total rental income is P17,491,792, 14,957,639 and P15,238,093 in 2017, 2016 and 2015, respectively (see Note 8).

22. MEMORANDUM OF AGREEMENT WITH ALC

On December 17, 2012, PCIC subsidiaries, PPC, ICC, KCC, MPC and related parties, PCC, Westland Pacific Properties Corp. (WPPC), International Polymer Corp. (IPC) and PHES ('the Landowners'), entered into a Memorandum of Agreement (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 P63,685,440 (inclusive of VAT) payable in 10% down payment, which was received during the year, and with the balance payable in three (3) equal installments from 2013 to 2015.

As at December 31, 2017 and 2016, respectively, the outstanding balance of installment contract receivable amounted to P57,316,896, representing unpaid portion of the total contract price.

The contract to sell is covered by covenants, which among others, include the following:

- Prior to the payment of the balance of the purchase price, PPC shall not enter into any agreement to sell, dispose, convey, encumber or, in any manner, transfer or assign, whether by security or otherwise, PPC's right, title and interest in, and to the property, and whether such transfer shall be made with or without consideration.
- PPC shall not undertake any acts which may cause delay to the completion of the transaction or render ALC's title or claim to the property nugatory.

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 form Deed of Absolute Sale.

As at December 31, 2017, properties covered by the MOA has not been transferred to ALC pending the resolution of corporate rehabilitation filed by the Group (see Note 1). Accordingly, no payment has been made by ALC on the second installment.

23. EARNINGS (LOSS) PER SHARE

The following table presents information necessary to calculate the loss per share:

	2017	2016	2015
Consolidated net income (loss) for the year	(P18,069,272)	P107,782,459	P 435,563,550
Weighted average number of common shares outstanding during the year	3,276,035,637	3,276,035,637	3,276,035,637
Earnings (loss) per share	(P 0.0055)	P 0.0329	P 0.1330

24. CONTINGENCIES

On September 7, 1999, the BOD approved the execution of a third-party real estate mortgage on the Parent Company's properties located in Quezon City with an actual area of 6,678 square meters to secure the loan of Waterfront Philippines, Incorporated, an affiliate, with the Social Security System (SSS) amounting to P375 million. In 2003, SSS foreclosed the asset mortgaged in the amount of P198,639,000.

The Parent Company filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of P500 million. A decision was issued on January 12, 2015 where the contract of loan and real estate mortgage were declared null and void. Thus, WPI was directed to return the amount of P375 million to SSS and for SSS to return the properties and shares used as collateral.

The Group's 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 P1,476,534, however, execution was pending as at December 31, 2017 and 2016.

25. FINANCIAL RISK 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 Group's principal financial instruments comprise of cash, trade and other receivables, instalment receivables, AFS financial assets, advances to related parties, accounts payable and other liabilities (excluding local and other taxes and other liabilities to government agencies), and advances from related parties. The main purpose of these financial instruments is to raise financing for the Company's operations. The most significant financial risks to which the Group is exposed to are described below:

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash, trade and other receivables, instalment contract receivable and advances to related parties.

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:

	2017	2016
Cash, excluding cash on hand – note 4	P 2,409,039	P 3,732,995
Trade and other receivables - note 5	70,276,179	72,036,147
Installment contract receivable – note 22	57,316,896	57,316,896
Advances to related parties, at net amount - note 19	114,852,848	131,130,618
	P244,854,962	P264,216,656

The aging of financial assets is shown below:

December 31, 2017	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
	P2,409,039	P –	P –	P –	P –	P 2,409,039
Cash						
Trade and other receivables	70,276,179	–	–	–	58,077,198	128,353,377
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	114,852,848	58,205,806	173,058,654
	P130,002,114	P –	P –	P114,852,848	P116,283,004	P361,137,966

December 31, 2016	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
	P3,732,995	P –	P –	P –	P –	P3,732,995
Cash						
Trade and other receivables	72,036,147	–	–	–	58,077,198	130,113,345
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	131,130,618	58,205,806	189,336,424
	P133,086,038	P –	P –	P131,130,618	P116,283,004	P380,499,660

Impaired accounts represent account of customers 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.

Credit quality information for financial assets that are neither past due nor impaired

The credit quality of financial assets is being managed by the Group using internal credit ratings. Based on this, the management assessed that the financial assets that are neither past due nor impaired has high credit quality. This includes deposits to counterparties with good credit rating or bank standing.

December 31, 2017

Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	₱2,409,039	₱70,276,179	₱57,316,896	₱ —	₱130,002,114
Moderate	—	—	—	—	—
Low	—	—	—	—	—
	₱2,409,039	₱70,276,179	₱57,316,896	₱ —	₱130,002,114

December 31, 2016

Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	₱3,732,995	₱72,036,147	₱57,316,896	₱ —	₱133,086,038
Moderate	—	—	—	—	—
Low	—	—	—	—	—
	₱3,732,995	₱72,036,147	₱57,316,896	₱ —	₱133,086,038

The credit quality of financial assets is discussed below:

Cash in bank

The Group deposits its cash balance in a commercial and universal bank to minimize credit risk exposure.

Trade and other receivables

The Group assesses credit risk on trade accounts receivable for indicators of impairment by reviewing the age of accounts. Allowance for doubtful accounts had been provided to cover uncollectible balance. The Group does not hold any collateral as security for these 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 no experience of default of payments from the lessees. Consequently, the Group categorized its trade and other receivables as high grade quality.

Installment contract receivable

The Group assesses credit risk on installment contract receivable for indicators of impairment by reviewing the age of accounts. Land with aggregate carrying amount of ₱651,901,500 is held as collateral as security for this receivable (see Note 8).

Advances to related parties

As at December 31, 2017 and 2016, the Group classifies advances to related parties as past due but not impaired with exception on certain advances, which the Group has determined to be past due and impaired and sufficient allowance for doubtful accounts has been provided.

Advances to related parties generally have no specific credit terms. The Group does not hold any collateral as security on these receivables.

The management continues to review advances to related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower related parties to settle on a net basis. The Group also has entered into agreements with related parties for the settlement of advances, as disclosed in Note 19. Further, the Group has identified real properties owned by related parties which can be used to settle the outstanding advances.

Certain advances to related parties were assessed to be impaired and allowance for doubtful accounts amounting to ₱58,205,806 as at December 31, 2017 and 2016, has been provided, respectively (see Note 19).

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 Group's AFS financial asset has no significant price risk since it has no quoted price in an active market.

If the price of the AFS financial assets had been 10% higher/lower the other comprehensive income (loss) for the year ended December 31, 2017 and 2016 would decrease/increase by ₱1,250,000 and Nil, 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.

December 31, 2017	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities* ₱	–	₱4,209,445	₱ –	₱ 4,209,445
Advances from related parties	497,930,191	–	–	497,930,191
Advances from lessees	–	2,897,013	–	2,897,013
	₱ 497,930,191	₱7,106,458	₱ –	₱505,036,649

*excluding government liabilities

December 31, 2016	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities* P	–	P 8,247,910	P –	P 8,247,910
Advances from related parties	496,822,360	–	–	496,822,360
Advances from lessees	–	2,574,795	–	2,574,795
Borrowings	–	159,619	–	159,619
	P 496,822,360	P10,982,324	P –	P507,804,684

*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 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.

During 2017, the Group's strategy, which was unchanged from 2016, 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:

	2017	2016
Accounts payable and other liabilities	P10,960,233	P15,424,804
Advances from lessees	2,897,013	2,574,795
Advances from related parties	497,930,191	496,822,360
Retirement benefits obligation	625,500	583,800
Borrowings	–	159,619
Gross debt	512,412,937	515,565,378
Cash	(2,429,039)	(3,752,995)
Net debt	509,983,898	511,812,383
Total equity	1,294,324,854	1,312,394,126
Total capital	P1,804,308,752	P1,824,206,509
Gearing ratio	28.26%	28.06%

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, 2017 and 2016, 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.

	2017		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
Financial Assets				
Advances to related parties	₱114,852,848	₱121,546,908	Level 2	(a)
Non-Financial Assets				
Investment properties	979,530,545	981,108,519	Level 2	(b)
Joint operation asset	542,573,111	542,573,111	Level 2	(b)
	₱1,636,956,504	₱1,645,228,538		

	2017		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
Financial Liabilities				
Advances from related parties	₱497,930,191	₱483,219,070	Level 2	(a)

	2016		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
Financial Assets				
Advances to related parties	₱131,130,618	₱121,546,908	Level 2	(a)
Non-Financial Assets				
Investment properties	981,108,519	981,108,519	Level 2	(b)
Joint operation asset	542,573,111	542,573,111	Level 2	(b)
	₱1,654,812,248	₱1,645,228,538		

	2016		Fair value hierarchy	Valuation techniques
	Carrying Value	Fair Value		
Financial Liabilities				
Advances from related parties	₱496,822,360	₱460,511,988	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 value of advances to related parties and advances from related parties is determined based on the discounted value using the applicable rate for fixed income government securities of five (5) years. The discounted rates used are 3.868% in 2017 and 3.868% in 2016.

- (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.
- (c) The fair value of borrowings is determined based on discounted value of future cash flows using 9.25% effective rate.

The fair value of cash, trade and other receivables, installment contract receivable, accounts payable and other liabilities, 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 year ended December 31, 2017 is as follows:

	Balance as at January 1, 2017	Changes from financing cash flows	Balance as at December 31, 2017
Borrowings	P 159,619	(P 159,619)	P —
Advances from related parties	496,822,360	1,107,831	497,930,191
Total liabilities from financing activities	P 496,981,979	P 948,212	P 497,930,191

* * *

**Diaz Murillo Dalupan
and Company**

Certified Public Accountants

**Audit Report on Additional Components of the
Consolidated Financial Statements**

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

We have audited the accompanying consolidated financial statements of **Wellex Industries Incorporated and Subsidiaries** as at and for the year ended December 31, 2017, on which we have rendered the attached report dated March 26, 2018. The supplementary information shown in the Appendices A – C and Schedules A - H, as additional component required by Rule 68, Part I, Section 4 of the Securities Regulation Code, are presented for purposes of filing with the Securities and Exchange Commission and are not required part of the basic financial statements. Such information is the responsibility of management and has been subjected to auditing procedures applied in the audits of basic financial statements. In our opinion, the information has been prepared in accordance with Rule 68 of the 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-2, Group A, effective until May 1, 2019

BIR Accreditation No. 08-001911-000-2016, effective until March 17, 2019

By:


Rosemary D. De Mesa

Partner

CPA Certificate No. 29084

SEC Accreditation No. 1089-AR-2, Group A, effective until May 10, 2020

Tax Identification No. 104-576-953

PTR No. 6615250, January 4, 2018, Makati City

BIR Accreditation No. 08-001911-007-2016, effective until March 17, 2019

March 26, 2018

Local in Touch, Global in Reach

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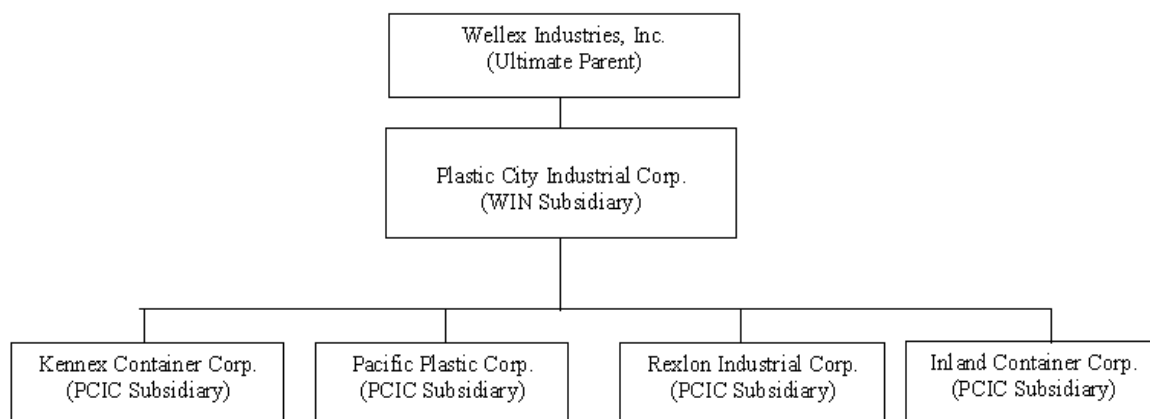
Website : www.dmdcpa.com.ph

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WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
APPENDIX A – FINANCIAL SOUNDNESS
DECEMBER 31, 2017 and 2016

	2017	2016
Profitability ratios:		
Return on assets	Nil	5.90%
Return on equity	Nil	8.21%
Net profit margin	Nil	720.58%
Gross profit margin	37.10%	36.75%
Solvency and liquidity ratios:		
Current ratio	10.24:1	7.96:1
Quick ratio	9.38:1	7.33:1
Debt to equity ratio	0.40:1	0.39:1
Cash flow liquidity ratio	Nil	Nil
Financial leverage ratio:		
Asset to equity ratio	1.40:1	1.39:1
Debt to asset ratio	0.28:1	0.28:1
Interest rate coverage ratio	Nil	192.35:1

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
APPENDIX B – MAP OF CONGLOMERATE OR GROUP
OF COMPANIES WITHIN WHICH THE COMPANY BELONGS
DECEMBER 31, 2017 and 2016



WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
APPENDIX C – STANDARDS AND INTERPRETATIONS EFFECTIVE
AS AT DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments	✓		
PFRS 9 (2014)	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				✓
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14,			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Prepayments of a Minimum Funding Requirement			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

Not Applicable – Standards and interpretations that are effective as at January 1, 2017 but will never be applicable to the Group due to the nature of its operations or not relevant to the Group because there are currently no related transactions.

Not Adopted – Standards and interpretations that are already issued but are not effective for the year ended December 31, 2017 and were not early adopted by the Group.

Please refer to Note 2 to the financial statements for related discussion on the assessed impact on the Group's consolidated financial statements on the adoption of new standards and interpretations effective in 2017 including standards effective in 2017 and onwards.

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2017

Name of issuing entity and associate of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Valued based on market quotation at end of reporting period	Income received and accrued
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Not Applicable

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES,
RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2017

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF
FINANCIAL STATEMENTS
DECEMBER 31, 2017

Name and designation of debtor	Balance at beginning of period	Amounts collected	Amounts written-off	Current	Non-Current	Balance at end of period
Direct Subsidiaries						
Plastic City Industrial Corporation	P 34,980,261	P –	P –	P –	P 34,980,261	P 34,980,261
Indirect Subsidiaries (PCIC Subsidiaries)						
Pacific Plastic Corporation	9,288,210	–	–	–	9,288,210	9,288,210
Kennex Container Corporation	34,558,745	–	–	–	34,558,745	34,558,745
Inland Container Corporation	38,894,446	–	–	–	38,894,446	38,894,446
	P 117,721,662	P –	P –	P –	P 117,721,662	P 117,721,662

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE D – INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2017

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Miscellaneous and refundable deposits	P 180,844	P –	P –	P –	P –	P 180,844

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
DECEMBER 31, 2017

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 F – INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS
FROM RELATED COMPANIES)
DECEMBER 31, 2017

Name of related party	Balance at beginning of period	Balance at end of period
Affiliates		
Diamond Stainless Corporation	P132,846,223	P132,846,223
Plastic City Corporation	86,916,104	86,916,104
Kenstar Industrial Corporation	23,539,858	23,539,858
Philippine Estates Corporation	29,923,261	28,815,430
Rexlon Realty Corp.	23,187,370	23,187,370
International Polymer Corporation	24,655,300	24,655,300
Ropeman International Corp.	3,202,528	3,202,528
Stockholders		
Pacific Rehouse Corp.	15,540,753	15,540,753
Key officers	158,118,794	158,118,794
	P497,930,191	P496,822,360

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2017

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
Not Applicable				

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE H – CAPITAL STOCK
DECEMBER 31, 2017

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
Common shares	P 3,500,000,000	P 3,276,045,637	P –	P 10,000	P 1,858,414,432	P 1,417,621,205

Wellex Industries, Inc.

**Unaudited Financial Statements
For the Quarter Ended
June 30, 2018 and 2017**



108102018001734

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Name WELLEX INDUSTRIES INC.
Industry Classification Miscellaneous Business Activities
Company Type Stock Corporation

Document Information

Document ID 108102018001734
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered June 30, 2018
No. of Days Late 0
Department CFD
Remarks

**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, 2018**
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. **35th Flr. One Corporate Center, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City**
Address of principal office
8. **Telephone No. (02) 706-7888**
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 :

Title of Each Class

**No. of Shares of Common Stock Outstanding:
and Amount of Debt Outstanding**

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 [x]

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: ₱1,329,929,870

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's Discussion and Analysis of Financial Condition and Results of Operations

- Unaudited Income Statement

	Amounts in Php			
	April – June 2018	April – June 2017	Jan – Jun 2018	Jan – Jun 2017
Rental income	5,683,546	4,215,355	11,119,917	7,896,413
Direct costs and expenses	4,576,083	1,842,282	6,908,857	3,417,449
Gross profit	1,107,463	2,373,073	4,211,060	4,478,964
Operating expenses	4,622,316	6,095,291	8,733,167	13,270,198
Income (loss) from operations	(3,514,853)	(3,722,218)	(4,522,107)	(8,791,234)
Other income (charges)	81,346	82,275	162,330	162,919
	(3,433,507)	(3,639,943)	(4,359,777)	(8,628,315)
Finance cost		2,384		5,752
Net income (loss) before tax	(3,433,507)	(3,642,327)	(4,359,777)	(8,634,067)
Income tax expense		-		-
Net income (loss) for the period	(3,433,507)	(3,642,327)	(4,359,777)	(8,634,067)
Earnings (loss) per share	(₱0.0011)	(₱0.0011)	(₱0.0013)	(₱0.0026)

- Unaudited Balance Sheet

	Amounts in Php		
	June 30, 2018	June 30, 2017	December 31, 2017
Current assets	149,627,478	97,149,929	141,909,665
Noncurrent assets	1,662,037,252	1,672,224,754	1,664,828,126
Total Assets	1,811,664,730	1,769,374,683	1,806,737,791
Current liabilities	26,114,291	16,789,077	13,857,246
Non-current liabilities	492,776,034	448,825,547	498,555,691
Stockholders' equity	1,292,774,406	1,303,760,059	1,294,324,854
Total Liabilities & Equity	1,811,664,730	1,769,374,683	1,806,737,791

Quarter ended June 30, 2018 as compared with quarter ended June 30, 2017

As of the quarter ending June 30, 2018, the company has ceased commercial operations and is disposed to lease

out its warehouse facilities. Total revenue recorded for the second quarter of 2018 amounted to ₱5.6 million as compared to the same quarter of 2017 amounting to ₱4.2 million or an increase of ₱1.4 million or 33.33%. Number of areas being leased out for the 2nd quarter of 2018 is higher than the same quarter of 2017 and rental rates are adjusted to cover fixed and overhead expenses.

Loss per share comparison for the quarter ended June 30, 2018 and 2017 are ₱0.0011 and ₱0.0011, respectively.

As of June 30, 2018, there are eleven (11) companies leasing inside the PCIC compound occupying twenty (20) 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	04/01/18-12/31/18	258,188
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	1,134	04/01/18-12/31/18	258,188
3	SMYPC - MANILA PLASTIC PLANT - bldg 30	2,200	04/01/18-12/31/18	481,257
4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/17-09/05/18	667,634
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/17-09/14/18	621,441
6	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	2,000	10/08/17-09/07/18	300,000
7	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	3,000	11/16/17-10/15/18	450,000
8	TRIPLE SEVEN J.R.T. BUILDERS - B15	1,100	01/01/18-06/30/18	235,714
9	CARTER INDUSTRIAL CORP. - Bldg 42	1,980	01/01/18-06/30/18	386,100
10	RAMOSCO LOGISTICS INC. - Office		03/01/17-06/30/18	45,000
11	GRACEFUL LOGISTICS	2,000	05/01/18-05/14/19	160,000
12	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/18-05/31/19	40,000
13	SAN MIGUEL BREWERY INC.- bldg 23	3,105	04/01/18-04/30/19	665,357
14	SAN MIGUEL BREWERY INC.- SHIPPING YARD	1,430	04/01/18-04/30/19	191,518
15	SAN MIGUEL BREWERY, INC - Bldg 24	1,476	03/01/18-03/31/19	316,286
16	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	1,500	03/01/18-03/31/19	200,893
17	BIG THUMB ENTERPRISES-bldg 23 open space	35	03/01/18-03/31/19	9,000
18	GOENG MARKETING - Bldg 26	524	01/01/18-12/31/18	112,286
19	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/18-01/15/19	225,000
20	RBSB ENTERPRISES-bldg 28	300	11/15/17-11/14/18	63,000

Direct cost and operating expenses for the 2nd quarter of 2018 totaled ₱9.2 million as compared to ₱7.9 million for the 2nd quarter of 2017 or an increase of ₱1.3 million or 16.46%. The amount was recorded and mainly attributable to the following:

- Direct cost consists of depreciation expense, repairs and maintenance, security services, property taxes and insurance. Total direct cost recorded for the 2nd quarter of 2018 amounted to ₱4.5 million which is ₱2.7million higher than cost incurred for the 2nd quarter of 2017. The increase is attributable to higher depreciation, security services and property taxes.
- Operating expenses decreased by ₱1.47 million or 24.16% as a result of big decrease in depreciation charged to operation.

Performance Indicators

As the Parent Company is still in the process of discussing with potential investors for its oil and mineral exploration, and its subsidiary, PCIC, ceased its manufacturing operation since 2002 due to Asian crises and stiff business competition and had leased out its building facilities, the Group determines their performance on the following five (5) key performance indicators:

- Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 2nd quarter of 2018, the company has an average of ₱274,343 rental income per tenant or an increase of ₱17,587 rental income per tenant or 6.85% as compared to 2nd quarter of 2017. Due to the pending agreement with ALC for the development of Plastic City compound, some of the buildings

and warehouses were being leased out again. Some rental rates of other tenants were increased to cover fixed and overhead expenses.

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 2018, ratio of past due receivables to total outstanding was 42.64%.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. Second quarter of 2018 has a gross profit margin of 19.48% compared to 56.30% for the second quarter of 2017.
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 2018 was 572.97% as compared to 578.65% on the second quarter of 2017. Decrease is attributable to increase in both receivables and current liabilities.
5. Advances by the Affiliates - For the 2nd quarter of 2018, the company has total advances from affiliates amounting to ₱501 million or an increase of ₱53 million from last year's ₱448 million balance.

Further discussion of accounts of which registered an increased or decreased by 10% or more follows:

Cash

The Group's cash decreased by ₱3.2 million or 69.39% due to the following activities: (a) net cash used in operating activities for the quarter is ₱4.9 million, (b) net cash generated in investing activities for the quarter is ₱0.3 million and (c) net cash provided in financing activities for the quarter is ₱3.6 million.

Available-for-sale financial assets

During the latter part of 2017, the Group acquired an investment in unquoted shares of stock in Bulacan Harbour Dev't. Corp. amounting to ₱12.5 million. The Group does not participate in the financial and operating policy of the investee which manifests control or significant influence.

Property and equipment

This consists mainly of building and improvements, machinery and equipment, transportation equipment and tools and furniture and fixtures of PCIC subsidiaries used for the manufacturing of plastic products.

The Group's machinery and equipment was appraised on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. Based on the appraisal, the fair value of machinery and equipment amounted to ₱31,376,000. The fair value of machinery and equipment were determined to be lower than its carrying amount. Decline in value of machineries and equipment amounted to ₱17,893,083 was recognized in 2015.

The decrease is mainly attributable to the depreciation charged to operations for the period.

Advances to related parties

A decrease of ₱14 million or 10.89% was 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.

Advances from lessees

Amount recorded for the quarters ended June 30, 2018 and 2017 is ₱3.5 million and ₱2.8 million, respectively or an increase of ₱0.7 million or 26.60% due to increase in the Group's average rental income. Some tenants made advance payment for the contract signed to reserve for the opportunity to lease the areas again after their contract expired.

(i) Summary of Material Trends, Events and Uncertainties

Philfoods Aisa Incorporated

Philfoods started commercial operation in 2000 and was suspended in 2002. On March 15, 2016, the Parent Company sold its investment in Philfoods for a total consideration of ₱6,249,975.

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 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 a reliable joint venture partners who have the means to continue its operations.

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. Details of the rehabilitation were fully disclosed in Annex A.5 under Note 1 of the Notes to Consolidated Financial Statements.

On March 15, 2016, PCIC sold its whole interest on Weltex Industrial Corp. to Chesa Holdings, Inc. for a total purchase price of ₱6,249,250. On the same date, PCIC sold also its shares in MPC Plastic Corp. to Chesa Holdings, Inc. for a total purchase price of ₱2,500,000.

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

Since the Plastic City Industrial Corporation ceased in commercial 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 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)

Plastic City Industrial Corporation ceased in commercial operation and is disposed to lease out its warehouse facilities.

Rental Income recorded for the 2nd quarter of 2018 compared to 2017 increased by 34.83% due to increase in rental rates to cover fixed expenses for terminated lease contracts. As of June 30, 2018, there are eleven(11) lessees occupying eighteen (20) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to eight (8) lessees, occupying sixteen (16) areas for 2017. Some rental rates of other tenants were increased to cover fixed and overhead expenses.

Pacific Plastic Corp., a Plastic City Industrial Corp. (PCIC) subsidiary, entered into a Contract to Sell (CTS) with Avida Land Corp. last December 17, 2012, for the sale of its 25,203 sq. meters of land located in PCIC compound. Consequently, rental contracts with tenants/lessees on such areas were pre-terminated/terminated as of December 31, 2012.

Current ratio (current assets over current liabilities) as of the 2nd quarter of 2018 is 894.96% with recorded current assets of ₱149.6 million over ₱16.7 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

PCIC and subsidiaries ceased manufacturing operations in 2002 and prior years 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.

(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.

(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 the attached Notes to Financial Statements.

(x) Disclosure under SEC Memorandum Circular No. 3, Series of 2012

PFRS 9, Financial Instruments (2014). The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the financial statements as the Parent Company’s financial assets and financial liabilities pertain only to debt securities that will continue to be measured at amortized cost.

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:

		<u>“CLASS A”</u>	
		High	Low
2018	First Quarter	0.200	0.191
	Second Quarter	0.250	0.235
2017	First Quarter	0.193	0.190
	Second Quarter	0.214	0.210
	Third Quarter	0.197	0.194
	Fourth Quarter	0.194	0.182
2016	First Quarter	0.205	0.200
	Second Quarter	0.205	0.198
	Third Quarter	0.203	0.196
	Fourth Quarter	0.194	0.193
2015	First Quarter	0.243	0.235
	Second Quarter	0.200	0.190
	Third Quarter	0.234	0.216
	Fourth Quarter	0.210	0.191

The price information as of June 30, 2018 (latest practical trading date) was closed at ₱0.235 for Class A, the only security traded by the Company, and there are 1,005 stockholders.

(2) Holders

The numbers of shareholders of record as of June 30, 2018 were 1,005. Common shares issued and subscribed as of June 30, 2018 were 3,264,864,945.

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES

List of Top 20 Stockholders of Record June 30, 2018

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	PERCENTAGE TO TOTAL OUTSTANDING
PCD NOMINEE CORP.	FILIPINO	902,076.803	27.570
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
PCD NOMINEE CORPORATION (NON-	OTHERS	42,827.020	1.309
ORIENT PACIFIC CORPORATION	FILIPINO	36,340.000	1.111
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	FILIPINO	300.000	0.009

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 AUG 09 2018 day of _____, in PASIG CITY affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS

1. Kenneth T. Gatchalian
2. Atty. Mariel L. Francisco
3. Richard L. Ricardo

TAX IDENTIFICATION NO.

167-406-526
224-150-060
140-857-860

Doc. No.: 329
Page No.: 67
Book No.: 5
Series of: 2018

JOVAN S. ABOGA-A

JOVAN S. ABOGA-A
Notary Public for and in the City of Pasig
Appointment No. 72 (2017-2018)
Commission expires on Dec. 31, 2018
301 One Corporate Center, Julia Vargas Ave.
corner Meralco Ave., Ortigas Center, Pasig City
Roll No. 60963
PTR No. 3846545, Jan. 3, 2018, Pasig City
IBP No. 014110, Lilaime; E. Samar Chapter
MCLE No. VI-0002041 (until April 14, 2022)

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Financial Position

“ANNEX A.1”

	Unaudited June 30 2018	Unaudited June 30 2017	Audited December 31 2017
ASSETS			
Current Assets			
Cash - note 4	₱ 1,424,613	₱ 4,655,332	₱ 2,429,039
Trade and other receivables (net) – note 5	78,131,519	23,097,176	70,276,179
Installment contract receivable – note 21	57,316,896	57,316,896	57,316,896
Prepaid taxes – note 6	12,754,450	12,080,525	11,887,551
	149,627,478	97,149,929	141,909,665
Noncurrent Assets			
Available-for-sale financial assets – note 7	12,500,000	-	12,500,000
Advances to related parties – note 19	114,543,604	128,546,340	114,852,847
Investment properties (net) – note 8	977,997,751	979,575,725	979,530,545
Investments in a joint operation (net) – note 9	542,573,111	542,573,111	542,573,111
Property and equipment (net) – note 10	11,432,615	21,348,734	15,190,779
Other assets	180,844	180,844	180,844
	1,659,227,924	1,672,224,754	1,664,828,126
TOTAL ASSETS	₱1,808,855,402	₱1,769,374,683	₱1,806,737,791
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities- note 12	₱13,149,545	₱13,882,712	₱10,960,233
Advances from lessees – note 19	3,569,351	2,887,690	2,897,013
Borrowings (net of noncurrent portion) – note 11	-	18,675	-
	16,718,896	16,789,077	13,857,246
Noncurrent Liabilities			
Borrowings – note 11	-	74,213	-
Advances from related parties – note 19	501,545,929	448,167,534	497,930,191
Retirement benefits obligation – note 16	625,500	583,800	625,500
	502,171,429	448,825,547	498,555,691
Equity			
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	(2,010,563,361)	(1,996,768,379)	(2,006,203,584)
	1,289,975,077	1,303,770,059	1,294,334,854
Treasury stock	(10,000)	(10,000)	(10,000)
	1,289,965,077	1,303,760,059	1,294,324,854
TOTAL LIABILITIES AND EQUITY	₱1,808,855,402	₱1,769,374,683	₱1,806,737,791

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
“ANNEX A.2”
Consolidated Statements of Comprehensive Income

	April – June	April - June	Jan – June	Jan – June
	2018	2017	2018	2017
RENTAL INCOME - notes 7 and 19	₱5,683,546	₱4,215,355	₱11,119,917	₱7,896,413
DIRECT COSTS AND EXPENSES - note 13	4,839,975	1,842,282	7,172,749	3,417,449
GROSS PROFIT	843,571	2,373,073	3,947,168	4,478,964
OPERATING EXPENSES - note 14	4,358,425	6,095,291	8,469,276	13,270,198
(LOSS) INCOME FROM OPERATIONS	(3,514,854)	(3,722,218)	(4,522,108)	(8,791,234)
OTHER INCOME (CHARGES) (net) – note 15	81,347	82,275	162,331	162,919
	(3,433,507)	(3,639,943)	(4,359,777)	(8,628,315)
FINANCE COST	-	2,384	-	5,752
INCOME (LOSS) BEFORE TAX	(3,433,507)	(3,642,327)	(4,359,777)	(8,634,067)
INCOME TAX EXPENSE – note 17	-	–	–	–
NET INCOME (LOSS)	(₱3,433,507)	(₱3,642,327)	(₱4,359,777)	(₱8,634,067)
Income (loss) per share - note 21	(₱0.0011)	(₱0.0011)	(₱0.0013)	(₱0.0026)

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**“ANNEX A.3”****Consolidated Statements of Changes in Equity**

	Unaudited June 30 2018	Unaudited June 30 2017	Audited December 31 2017
CAPITAL STOCK	₱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			
Balance - beginning of the period	(2,006,203,584)	(1,988,134,312)	(1,988,134,312)
Net income (loss) for the period	(4,359,777)	(8,634,067)	(18,069,272)
Balance - end of the period	(2,010,563,361)	(1,996,768,379)	(2,006,203,584)
TREASURY STOCK	(10,000)	(10,000)	(10,000)
TOTAL EQUITY	₱1,289,965,077	₱1,303,760,059	₱1,294,324,854

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

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
“ANNEX A.4”
Consolidated Statements of Cash Flows

	Unaudited June 30 2018	Unaudited June 30 2017	Audited December 31 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax from continued and discontinued operations	(₱4,359,777)	(₱8,634,067)	(17,306,085)
Adjustments for:			
Depreciation – notes 8 and 10	5,290,958	8,556,557	14,759,692
Provision for retirement benefits	-	-	41,700
Finance costs – note 11	-	5,752	1,115,336
Interest income – note 4	(1,616)	1,918	(6,071)
Operating income (loss) before working capital changes	929,565	(69,840)	(1,395,428)
Decrease (increase) in:			
Trade and other receivables	(7,855,340)	48,938,971	(2,200,126)
Prepaid taxes	(866,898)	(592,648)	(399,674)
Increase (decrease) in:			
Accounts payable and other current liabilities	2,189,312	(1,542,092)	(258,930)
Advances from lessees	672,338	312,895	322,218
Net cash from (used in) operations	(4,931,023)	47,047,286	(3,931,940)
Interest received	1,616	(1,918)	6,071
Income tax paid	-	-	(763,186)
Net cash from (used in) operating activities	(4,929,407)	47,045,368	(4,689,055)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection (grant) of advances to related parties	309,243	2,584,278	16,032,223
Acquisition of available-for-sale financial assets- note 7	-	-	(12,500,000)
Net cash generated from investing activities	309,243	2,584,278	3,532,223
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of advances from related parties- note 19	3,615,738	(48,654,826)	1,107,831
Payment of borrowings	-	(66,731)	(159,619)
Finance cost paid	-	(5,752)	(1,115,336)
Net cash from (used in) financing activities	3,615,738	(48,727,309)	(167,124)
NET INCREASE (DECREASE) IN CASH	(1,004,426)	902,337	(1,323,956)
CASH - notes 2 and 5			
At beginning of the period	2,429,039	3,752,995	3,752,995
At end of the period	₱ 1,424,613	₱ 4,655,332	₱ 2,429,039

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

Notes to Consolidated Financial Statements

June 30, 2018

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

Wellex Industries Incorporated (the ‘Parent Company’) was incorporated in the Philippines on October 10, 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, 2050 and 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 its warehouse/ building facilities.

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

Status of Operations and Management Plans

The accompanying 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 ₱2,006,203,583, ₱1,988,134,312 and ₱2,043,489,893 as at December 31, 2017, 2016 and 2015, 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.

The subsidiaries ceased its manufacturing operations in prior years from 2000 to 2002 due to the Asian crises and stiff business competition and had leased out its building facilities.

Corporate Rehabilitation

The Plastic City Industrial Corporation (PCIC) subsidiaries’ investment properties were used as collateral to secure loans obtained by the PCIC’s subsidiaries and its related parties (the ‘Group’), 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 default to settle the outstanding obligations by the Group and its related parties, on October 28, 2010, PCIC subsidiaries, Inland Container Corp. (ICC), Pacific Plastic Corp. (PPC), and Kennex Container Corp. (KCC) (the “Petitioners”) filed a petition for corporate rehabilitation (the “Plan”) before the Regional Trial Court of Valenzuela (RTC) by authority 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.

The Plan should be implemented over a span of five (5) years, with the Group to expect gross income projection of ₱4.214 billion from 2011 to 2015, assuming the Plan was immediately approved. The Plan entails the following: (a) capital restructuring; (b) debt restructuring; (c) reconditioning of machinery and equipment; (d) implementation of sales plan; and (e) joint venture for the real estate conversion from industrial to commercial and residential.

On June 7, 2011, PNB filed a motion to dismiss the Plan, however, the RTC issued on July 27, 2011, an order

denying the motion to dismiss filed by PNB since it was a prohibited pleading.

On August 31, 2011, a motion to dismiss was filed by BDO joining the previous motion to dismiss filed by PNB. On September 24, 2012, the Group had fully settled its loan with BDO, including all accrued interest.

On December 17, 2012, the Petitioners filed a revised Plan (which supersedes the first Plan) before the Court. Incorporated in the revised Plan is the Memorandum of Agreement (MOA) entered into by the Parent Company and other related parties with Avida Land Corp. (ALC). On the same date, for the development of 21.3 hectares of land located in Valenzuela City into a residential cluster 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 Petitioners, and around 8.47 hectares were mortgaged to PNB to secure the loan with an outstanding balance of ₱4.01 billion which includes interest, litigation expense, penalties, attorney's fee and other charges as at December 31, 2013. The projected future gross cash flows from the implementation of the revised plan amounted to ₱916.4 million over a nineteen (19) year time frame based on agreed sharing scheme.

On January 31, 2013, the Receiver submitted its comment on the revised Plan and requested the RTC to order the parties to negotiate and explore realistic and mutually acceptable rehabilitation plan.

In 2013, several enhancements of the revised Plan were discussed by the Petitioners and PNB.

On January 15, 2014, a conference prior to the resolution of the case was held among the Petitioners, PNB, BDO and the Rehabilitation Receiver. One of the topics covered, among others, was the presentation of Revised Rehabilitation Proposal letter by Novateknika Land Corp. (NLC) (borrower of PNB of which the properties by Petitioners were used to secure the loan of NLC) to PNB dated December 6, 2013. The terms of the proposal, among others are the following:

- ₱700 million to be paid within a period of 120 days from the acceptance of the offer; and
- All properties and collaterals mortgaged to PNB, including Quirino Manila, Valenzuela and Davao to be returned to their respective debtors or mortgagors.

In a letter dated February 3, 2014 by the Rehabilitation Receiver to the RTC, the Receiver mentioned that efforts were exerted to find a mutually acceptable plan of payment. However, the firm stand of PNB to be paid in full amount of ₱4 billion and liquidate the mortgaged properties served as barriers.

The Rehabilitation Receiver also reiterates the recommendations made in the Report dated November 28, 2013:

1. PNB will be paid at an amount substantially more than liquidating the mortgaged properties. At its present use, the mortgaged properties of PNB can command a price of ₱254 million against payment of ₱600 million plus interest. Of the ₱600 million to be paid, ₱200 million will be paid upfront and balance of ₱400 million over a period of five (5) years at 5 % p.a. interest rate. There will be no opportunity losses for PNB even if the ₱400 million will be amortized as interest is being paid. As to the latest proposal made by Novateknika Land Corp. increasing the loan amount to be paid at ₱700 million (in this Corporate Rehabilitation proceedings the proposal is for ₱600 million) with the condition to release the mortgages in Valenzuela, Quirino, Manila and Davao City, Rehabilitation Receiver has no means of fully evaluating the latest proposal with the additional condition of releasing the mortgages in Quirino, Manila and Davao City.
2. Approval of the Rehabilitation Plan will pave the way for the development of the Plastic City Compound into a residential community which will not only benefit PNB but also the Petitioners and other property owners in the compound.
3. Given that PNB will be granted its motion to convert the proceedings to one of the liquidation and ultimately foreclose and take possession of the mortgaged properties, it will be quite difficult for PNB to immediately sell or develop the same as it seems that the mortgaged properties are land locked and situated in the mid to inner part of the Plastic City Compound.

On October 20, 2014, the RTC issued an order which disapproved the enhanced rehabilitation plan of Petitioners and converted the rehabilitation case into liquidation. The RTC also issued an order which declared the Petitioners insolvent, ordered the liquidation of the assets of the Petitioners, and directed the sheriff to immediately take

possession and safely keep all real and personal properties until the appointment of liquidator.

On December 15, 2014, the Petitioners filed a Petition for Review with the Court of Appeals (CA) assailing the RTC's decision on October 20, 2014. However, on December 15, 2015, the CA denied the petition and affirmed the decision of the RTC.

On January 22, 2016, a Motion for Reconsideration (MR) was filed with the CA by the Petitioners praying that its decision be reversed and set aside. However, on July 4, 2016, the CA denied the MR. Hence, on August 11, 2016, the Petitioner's filed a Petition for Review before the Supreme Court (SC).

On November 4, 2016, the Petitioner's received the resolution dated September 14, 2016 of the Supreme Court, denying the petition for review. On November 21, 2016, the Petitioner filed a Motion for Reconsideration of the said resolution. On February 28, 2017, upon Petition of PNB, the RTC issued an order allowing the suspension of action in the proposed liquidation plan until after the comments of the creditors with regard to the amount of remaining obligation after foreclosure are taken into consideration in the liquidation plan. On March 1, 2017, the RTC issued an order granting PNB to continue with the foreclosure proceedings. On October 4, 2017, the Supreme Court resolves to deny the Motion for Reconsideration with finality.

On January 24, 2018, the RTC rendered a decision ordering NLC and some of the stockholders jointly and solidarily liable to pay PNB amounting to ₱593 million with interest of 12% per annum from date of default, 24% penalty per annum and ₱3 million attorney's fees, less the proceeds of the auction sale of ₱119 million. On March 20, 2018 in order to terminate the proceedings and to finalize the settlement of all obligations of the Group to PNB, including, but not limited to the judgment of RTC, the Group entered into a Settlement Agreement with PNB to pay ₱950 million (the 'Settlement Amount') payable in two (2) tranche (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty (30) days after). Once PNB receive the Settlement Amount, it shall release the titles and issue the corresponding Cancellation of Mortgage of its lien over Davao and Valenzuela properties of the Group. Also, PNB shall sell the Quirino, Manila properties to 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 are hereby mutually, irrevocably, freely and voluntarily release and forever discharge one another, including their principals, affiliates, subsidiaries, owners, directors, officers, managers, successors-in-interest, agents, representatives, and/or assigns, from any and all claims, suits, and causes actions of whatever kind and nature, disclosed or undisclosed, pending or potential, which in law or equity they had, now have, or may have against each other, directly or indirectly arising out of, wholly or partially from, or related to or incidental to any of the facts, issues, or disputes involved in above cases, all of which claims, suits and causes of action the parties hereby relinquish, abandon, waive, save for such cause(s) of action that a party hereto may have against the other arising out of the said Settlement Agreement.

On the same date, the Group issued a check payable to PNB amounting to ₱850 million.

In view of the Settlement Agreement between the parties, on May 31 2018, the Regional Trial Court Branch 75 in Valenzuela City rendered a decision that the rehabilitation case entitled "IN RE: Corporate Rehabilitation of Pacific Plastic Corporation, Inland Container Corporation and Kennex Container Corporation" docketed as SP Proc. No. 44-V-10 filed by its subsidiaries, Inland Container Corporation, Pacific Plastic Corporation, and Kennex Container Corporation, is now CLOSED and TERMINATED.

In this regard, the Group will revisit its plans to pursue the development of the properties in Valenzuela City into residential clusters of condominium, townhouses, house and lots. Meanwhile, the Company will explore other business opportunities and assess and review its financial status. A capital infusion and build-up program are also contemplated in order to breathe life into the consolidated statements of financial position. The size and timing thereof will be directly related to the planned entry into both the mining and the real estate (industrial estate) sectors. The eventual outcome of these matters cannot be determined as at reporting date.

Consequently, the consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The 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 PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee, 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.

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 PFRSs and Philippine Interpretations which were adopted as at January 1, 2017.

PAS 7 (Amendment), Statement of Cash Flows – Disclosure Initiative. The amendment requires to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments resulted in disclosure of a reconciliation of liabilities arising from financing activities, reflecting both changes arising from cash flows and non-cash changes. The transitional provisions of these amendments provide exemption from presenting comparative information upon its initial application. Consequently, the comparative information for the preceding period is not presented on the Parent Company's consolidated financial statements.

PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses. These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments have no material impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

New accounting standards and amendments to existing standards effective subsequent to January 1, 2017

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

Annual Improvements to PFRS 2014-2016 Cycle

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendments to PFRS 1 and PAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to PAS 28 shall be applied retrospectively with earlier application permitted. The amendment to PFRS 12 is effective for the current year.

The annual improvements addressed the following issues:

PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters. The amendment deleted some short-term exemptions for first-time adopters and the related effective date paragraphs as the reliefs provided were no longer applicable and had been available to entities only for reporting periods that had passed.

PAS 28 (Amendments), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value. The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The application of the above improvements will have no impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PAS 40 (Amendments), Investment Property – Transfers of Investment Property. The amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The application of the amendments provides two options for transition: (a) An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments; or (b) retrospective application if, and only if, that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

PFRS 2 (Amendments), Share-based Payment - Classification and Measurement of Share-based Payment Transactions. The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash settled to equity-settled; (b) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments are effective for annual periods beginning on or after January 1, 2018, 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 4 (Amendments), Insurance Contracts - Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional, and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

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

PFRS 9, Financial Instruments (2014). The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the consolidated financial statements as the Group's AFS financial assets will continue to be measured at fair value with fair value recognize in the other comprehensive income, and other financial assets and liabilities pertains only to debt securities that will continue to be measured at amortized cost.

PFRS 15, Revenue from Contracts with Customers. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard will not have an impact in the measurement, recognition and disclosure of the Group's revenue. *PFRS 15 (Amendments), Revenue from Contracts with Customers – Clarifications to PFRS 15 Revenue from Contracts with Customers.* This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration. This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. This interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The interpretation will have no material impact on the Group's consolidated financial statements.

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

The adoption of the standard will have an impact on recognition of lease expenses, noncurrent assets and liabilities.

Basis of 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 Securities and Exchange Commission.

Subsidiaries	Principal Activity	Ownership	
		Jun 30 2018	Jun 30 2017
Direct Ownership			
Plastic City Industrial Corporation (PCIC)	Manufacturing	100%	100%
Indirect Ownership (Subsidiaries of PCIC)			
Inland Container Corporation (ICC)	Manufacturing	100%	100%
Kennex Container Corporation (KCC)	Manufacturing	100%	100%
Pacific Plastic Corporation (PPC)	Manufacturing	100%	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	100%	100%

Subsidiaries are entities which the Parent Company has the power to control the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Control exists when the Parent Company is exposed, or has rights, to variable returns from the involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

Subsidiaries are fully consolidated from the date on which the Group obtains control. Consolidation ceases when control is transferred out of the Group. The operating results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate. A change in ownership interest of a subsidiary, without a change in control is accounted for as an equity transaction.

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

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 Securities and Exchange Commission (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 Securities and Exchange Commission (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 Securities and Exchange Commission (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 Securities and Exchange Commission (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.

After the subsidiaries ceased commercial operation they had not resumed thereon. The subsidiaries were all located at T. Santiago Street, Canumay, Valenzuela City.

Financial instruments

Initial Recognition, Measurement and Classification of Financial Instruments

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.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes

transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Group classifies its financial assets in the following categories: (a) financial assets at FVPL, (b) loans and receivables, (c) held-to-maturity (HTM) investments and (d) available-for-sale (AFS) financial assets. The Group also classifies its financial liabilities into (a) financial liabilities at FVPL and (b) other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income.

As at June 30, 2018 and 2017, the Group did not hold any financial assets at FVPL, HTM investments, and financial liabilities at FVPL.

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 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.

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 26 to the 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.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the Group’s consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. 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, 2018 and 2017, included under loans and receivables are the Group’s cash, trade and other receivable, installment contract receivable and advances to related parties (see Notes 4, 5, 19 and 21).

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gain or loss being recognized in other comprehensive income as “Unrealized fair value gain (loss) on AFS”, net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the statements of comprehensive income as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated statements of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial assets previously recognized in the statements of comprehensive income.

Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the statements of comprehensive income when the right of payment has been established. These consolidated financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the end of reporting period.

The Company’s AFS financial assets include investment in shares as at June 30, 2018 (see Note 7).

Other Financial Liabilities

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the Group’s consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at June 30, 2018 and 2017, included in other financial liabilities are the Group’s accounts payable and other liabilities, borrowings, advances from related parties, and advances from lessees (see Notes 11, 12, 19 and 20).

Borrowings and Borrowing Cost

(a) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method. Difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the

borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(b) Borrowing cost

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

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the statement of comprehensive income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

AFS financial assets

For AFS financial assets, the Parent Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the consolidated statements of comprehensive income.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as AFS financial assets, increase in fair value after impairments is reversed in consolidated statements of comprehensive income.

Prepaid Taxes

This account comprises of creditable withholding taxes and unused input VAT. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

Input VAT is the indirect tax paid by the Group on the local purchases of goods and services from a VAT-registered person.

Claims for input VAT and prepaid taxes are stated at cost less provision for impairment, if any. Allowance for unrecoverable input VAT and prepaid taxes, if any, is 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 losses.

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 period.

Property, plant and equipment are recognized when probable future economic benefits associated with the property, plant and equipment will flow to the Group and the amount can be measured reliably. 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 amortization 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 statement of comprehensive income as incurred.

Depreciation and amortization 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

The useful lives and depreciation and amortization method are reviewed annually to ensure that the period and method of depreciation and amortization 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 amortization 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 and amortized property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization 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. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. 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 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 PFRSs 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 increased 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

Equity instruments are measured 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

Own equity instruments which are reacquired (treasury shares) 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, net of discounts, returns and value added taxes and when specific criteria have been met.

Rental income

Rental from investment properties that is leased to a third party under an operating lease is recognized in the 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 statement 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

Cost of services is 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 and deferred tax. 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 are 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 which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statements of financial position at amounts equal to the fair value of the leased property, or if lower, at the present value of minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in the statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Group is a party to operating leases as a lessor and lessee. Payments made under operating leases (net of any incentives) are charged to profit or loss on a straight-line basis over the period of the lease.

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). The Group has 8 and 9 employees as at December 31, 2014 and 2013, respectively. 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.

Earnings (Loss) Per Share

Earnings (loss) per share are determined by dividing net income (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 can be reasonably estimated. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

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's

consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the Group's consolidated 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:

Functional currency

The Group considers the Philippine peso as the currency that most fairly represents the economic effect of the underlying transactions, events and conditions. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency in which the Group measures its performance and reports its operating results.

Operating lease commitments

Group as lessee

The Group has entered into contract of lease for some of the office space it occupies. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group accordingly accounted for the lease agreement as operating lease.

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 noncancellable operating leases. In determining whether a lease contract is noncancellable, 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 real estate inventories and interest in joint operation

The Group determines whether a property contributed to joint venture operations will be classified as real estate inventories or investment in joint venture. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle 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 is not engaged in sale of real estate property; 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 BAT 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, 2018 and 2017, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱2,669,389 and ₱1,364,385 as at June 30, 2018 and 2017, respectively (see note 6).

Impairment of prepaid tax

Management believes that prepaid taxes are fully realizable since the Group is expecting that its reportable segment will generate income subject to output tax. Consequently, no provision has been provided on its prepaid taxes as at June 30, 2018 and 2017.

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.

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in the following section.

Allowance for doubtful accounts

Allowance is made for specific group of accounts where objective evidence of impairment exists. The factors considered by management in the review of the current status of its receivables are (1) length and nature of their relationship and its past collection experience, (2) financial and cash flow position and (3) other market conditions as at reporting date. Management reviews the allowance on a continuous basis.

Allowance for doubtful accounts on trade receivables was determined based on the full amount of receivable collectible from specific customers. For advances to related party, TWGI, the amount of allowance is based on percentage of total receivable determined to be doubtful of collection at the time the allowance was provided.

The Company's receivables (including advances to related parties and installment contract receivable), has a carrying value of ₱249,937,323 and ₱265,373,672 as at June 30, 2018 and 2017, net allowance for doubtful accounts of ₱58,077,198, respectively (see Notes 5, 19 and 21).

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 June 30, 2018 and 2017 are as follows:

	2018	2017
Property and equipment - note 10	₱11,432,615	₱21,348,734
Investment properties - note 8	58,631,771	60,209,745
	₱70,064,386	₱81,558,479

Impairment of non-financial assets

Non-financial assets are periodically reviewed to determine any indications 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 property and equipment, investment properties and investment in joint venture amounted to ₱365,169,438 and ₱365,169,438 as at June 30, 2018 and 2017 (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 years 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, 2018 and 2017, amounted to nil for both periods (see Notes 17). 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. As at June 30, 2018 and 2017, the Group's deferred tax assets with full valuation allowance are fully disclosed in Note 18.

4. CASH

Cash as at June 30 are as follows:

	2018	2017
Cash on hand	₱ 20,000	₱ 20,000
Cash in bank	1,404,613	4,635,332
	₱ 1,424,613	₱ 4,655,332

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from deposits amounted to ₱1,616 and ₱ 1,918 for the quarter ended June 30, 2018 and 2017.

There is no restriction on the Group's cash as at June 30, 2018 and 2017.

5. TRADE AND OTHER RECEIVABLES (net)

Trade and other receivables as at June 30 are as follows:

	2018	2017
Advances to third parties	₱118,920,195	-
Receivable from related parties – note 19	11,215,841	₱15,554,902
Rental receivables – note 20	5,544,576	2,615,662
Utilities receivables	493,366	
Others	34,739	10,335,572
	136,208,717	28,506,136
Allowance for doubtful accounts	(58,077,198)	(5,408,960)
	₱78,131,519	₱23,097,176

Advances to third parties represent receivable from a previously disposed subsidiary.

Other receivables include advances to employees and reimbursable expenses from PCIC subsidiaries' tenants.

Allowance for doubtful accounts represents allowance on advances to disposed subsidiaries eliminated in the prior years' consolidation.

The Group's receivables as at June 30, 2018 and 2017 are not held as collateral for its liabilities and are free from any encumbrances.

The Group believes that the carrying amount of receivables approximates fair value.

6. PREPAID TAXES

Prepaid taxes as at June 30 are as follows:

	2018	2017
Creditable withholding tax	₱10,085,061	₱10,716,140
Input VAT	2,669,389	1,364,385
	₱12,754,450	₱12,080,525

As at June 30, 2018 and 2017, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable

7. AFS FINANCIAL ASSETS

During the year, the Group acquired an investment in unquoted shares of stock in Bulacan Harbour Dev't. Corp. amounting to ₱12,500,000. The investment is classified as AFS financial assets as the Group does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

The Group's AFS financial assets as at June 30, 2018 are not held as collateral for its financial liabilities.

8. INVESTMENT PROPERTIES (net)

Details of investment properties as at June 30, 2018 are as follows:

	Land	Land improvements	Buildings and improvements	Total
Cost				
At beginning and end of period	₱980,176,630	₱3,290,824	₱312,179,250	₱1,295,646,704
Accumulated depreciation				
At beginning of period	–	3,290,824	75,417,096	78,707,920
Depreciation	–	–	1,532,794	1,532,794
At end of period	–	3,290,824	76,949,890	80,240,714
Accumulated impairment loss				
At beginning and end of period	60,810,650	–	176,597,589	237,408,239
Net carrying amounts, June 30, 2018	₱919,365,980	₱–	₱58,631,771	₱977,997,751

Details of investment properties as at June 30, 2017 are as follows:

	Land	Land improvements	Buildings and improvements	Total
Cost				
At beginning of year	₱ 980,176,630	₱ 3,290,824	₱ 312,179,250	₱1,295,646,704
Write-off	–	–	–	–
At end of year	980,176,630	3,290,824	312,179,250	1,295,646,704
Accumulated depreciation				
At beginning of year	–	3,290,824	73,839,122	77,129,146
Depreciation	–	–	1,532,794	1,532,794
At end of year	–	3,290,824	75,371,916	78,662,740
Accumulated impairment loss				
At beginning and end of year	60,810,650	–	176,597,589	237,408,238
Net carrying amounts, June 30, 2017	₱919,365,980	₱ –	₱ 60,209,745	₱979,575,725

Rental income earned on the above investment properties amounted to ₱5.6 million and ₱4.2 million for the quarters ended June 30, 2018 and 2017 (see Note 20), respectively. While direct operating expenses incurred on the buildings such as repairs and maintenance, security, insurance and property tax, and depreciation expenses

amounted to ₱4.8 million and ₱1.8 million, respectively, shown under “Direct costs and expenses” in the statements of comprehensive income (see Note 14).

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. Based on the recent appraisal conducted by an independent appraiser, the fair value of building and improvements amounted to ₱74,951,000. The fair value is determined to be lower than its cost, accordingly, the Group recognized impairment loss on building and improvements amounting to ₱29,087,993 in 2015. The fair value of land amounted to ₱975,966,600, which is higher than its carrying amount. Previously recognized impairment loss was reversed to the extent of the lands market value. In 2015, the Group recognized reversal of previously recognized impairment loss amounting to ₱337,293,585.

The Group’s land with aggregate carrying amount of ₱651,901,500 as at June 30, 2018 and 2017 are subject properties under the MOA with ALC as disclosed in Note 21. Under the terms of the MOA, the Group shall transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances. Pursuant to these terms, the Group has contracted a third party for the demolition of certain buildings located in the subject properties. As at June 30, 2018, properties covered by the MOA has not been transferred to (see Note 1).

Land with an aggregate carrying amount of ₱381,136,506 as at June 30, 2018 and 2017, were mortgaged with PNB to secure the loans obtained by related parties (see Notes 1 and 19). As of June 30, 2018, the Group is still processing the cancellation of mortgage in the titles.

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:

	June 30	
	2018	2017
Cost		
At beginning and end of year	₱590,214,111	₱590,214,111
Accumulated impairment loss		
At beginning and end of year	47,641,000	47,641,000
Net carrying amounts	₱542,573,111	₱542,573,111

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.

The Group recognized revenue amounting to ₱1,590,690 representing its share in the sale of joint venture lots in 2015. As at June 30, 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 19).

No revenue and expenses recognized in relation to the joint venture for the second quarter of 2018.

10. PROPERTY, PLANT AND EQUIPMENT (net)

The reconciliation of property and equipment as at June 30, 2018 as follows:

	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Total
Cost					
At beginning and 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	452,216,759	8,203,282	8,823,042	470,043,083
Depreciation	–	3,754,354	–	3,810	3,758,164
Balance at end of period	800,000	454,093,936	8,203,282	8,824,947	473,801,247
Impairment loss					
Balance at beginning and end of period	–	80,120,199	–	–	80,120,199
Net carrying amounts, March 31, 2018	₱–	₱13,308,522	₱–	₱3,175	₱11,432,615

The reconciliation of property and equipment as at June 30, 2017 as follows:

	Building and improvements	Machinery and equipment	Tools and equipment	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	439,228,176	8,017,766	8,815,423	456,861,365
Depreciation	–	6,918,763	101,190	3,810	7,023,763
Balance at end of year	800,000	446,146,939	8,118,956	8,819,233	463,885,128
Impairment loss					
Balance at beginning and end of year	–	80,120,199	–	–	80,120,199
Net carrying amounts, June 30, 2017	₱ –	₱ 21,255,519	₱ 84,326	₱ 8,889	₱ 21,348,734

Total depreciation allocated to operation amounted to ₱3,758,164 and ₱7,023,763 for the second quarter of 2018 and 2017, respectively (see Note 15).

The Company entered into a chattel mortgage agreement with local bank for the purchase of transportation equipment payable in three (3) years until 2017. The transportation equipment with a carrying amount of ₱84,326 as at June 30, 2017 was used as collateral to secure payment of borrowings (see Note 11). The loan was fully paid at the end of 2017.

The Group's machinery and equipment was appraised on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach. Based on the appraisal, the fair value of machinery and equipment as at December 31, 2015 were determined to be lower than its carrying amount. Total decline in value of machineries and equipment amounted to ₱17,893,083 was recognized in 2015.

The Group has no contractual commitment to acquire property and equipment as at June 30, 2018 and 2017.

11. BORROWINGS

The Company entered into a loan agreement with a local bank amounting to ₱476,000 on November 27, 2014, to finance the acquired of transportation. The loans carry an interest of 9.25% or a total financing charges ₱70,948 which approximates the market rate. The principal and the financing charges are payable in 36 monthly installments of ₱15,193 or a total of ₱546,948.

The outstanding balance of borrowings as at June 30, 2018 and 2017 amounted to nil and ₱92,888 respectively.

The carrying amount of transportation equipment used as collateral to secure payment of borrowings amounted to nil and ₱134,921 as at June 30, 2018 and 2017, respectively (see note 10).

The Group's borrowings is not subject to any significant loan covenants.

Finance costs charge to operations amounted to nil and ₱5,751 for the quarters ended June 30, 2018 and 2017, respectively.

The management believes that the carrying amount of the borrowings approximates their fair value.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at **June 30** are as follows:

	2018	2017
Accounts payable and accruals	₱ 4,813,097	₱ 4,562,840
Government liabilities	6,531,910	7,177,707
Deferred rental	1,804,520	2,142,165
	₱13,149,545	₱13,882,712

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.

Government liabilities pertains to VAT payable and tax withheld from payment to suppliers, employee's compensation, and statutory contributions to SSS, PHIC and HDMF.

Deferred rental represents advance rental paid by the lessees.

The Group believes that the carrying amount of accounts payable and other liabilities approximates fair value as at June 30, 2018 and 2017.

There were no assets of the Group that were collateralized for the above accounts payable and other liabilities as at June 30, 2018 and 2017.

13. CAPITAL STOCK

Details of the Parent Company's capital stock as at June 30, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Authorized – 3,500,000 shares at ₱1 par value per share	₱3,500,000	₱3,500,000	₱3,500,000
Issued and fully paid – 3,276,045,637 shares at ₱1 par value per share	₱3,276,045,637	₱3,276,045,637	₱3,276,045,637
Treasury stock – 10,000 shares	10,000	10,000	10,000
	₱3,276,035,637	₱3,276,035,637	₱3,276,035,637

Track record of registration of securities

The Parent Company was originally registered as Republic Resource and Development Corp. (REDECO) with the SEC on October 19, 1956. The Parent Company was listed with the PSE on January 8, 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 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.

As at June 30, 2018, 2017 and 2016, the Parent Company has outstanding 3,271,938,180 shares under its name. Remaining unconverted shares under REDECO as at June 30, 2018, 2017 and 2016, is 4,107,457. Outstanding shares owned by the public as at June 30, 2018, 2017 and 2016, is 1,413,422,848.

The historical market value of the Group's shares as follows:

	Market value per share
June 30, 2018	₱0.235
June 30, 2017	0.210
June 30, 2016	0.203

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.

14. DIRECT COSTS AND EXPENSES

Direct costs and expenses for the quarters ended **June 30** are as follows:

	2018		2017	
	Apr – Jun	Jan – Jun	Apr – Jun	Jan – Jun
Security services	₱ 853,309	₱ 1,706,619	₱ 995,528	₱1,706,619
Depreciation	₱ 766,397	₱ 1,532,794	₱ 766,397	₱1,532,794
Property taxes	2,139,412	2,772,123		
Repairs and maintenance	816,964	897,321	80,357	178,036
	₱4,576,083	₱6,908,857	₱1,842,282	₱3,417,449

15. OPERATING EXPENSES

Operating expenses for the quarters ended **June 30** are as follows:

	2018		2017	
	Apr – Jun	Jan – Jun	Apr – Jun	Jan – Jun
Professional fees	₱1,033,223	₱ 1,374,000	₱839,000	₱ 1,118,000
Salaries and wages	465,919	930,734	459,290	1,011,738
Depreciation	1,879,082	3,758,164	3,511,882	7,023,763
Rent, light and water	299,181	595,258	195,895	465,501
Taxes and licenses	159,213	634,268	341,314	1,027,733
Commission	184,623	364,762	103,725	186,994
SSS, Medicare and EC contributions	32,126	69,951	30,190	62,504
Others	568,950	1,006,031	613,995	2,373,965
	₱4,622,316	₱8,733,167	₱6,095,291	₱13,270,198

16. OTHER INCOME (LOSS) (NET)

Other income (loss) for the quarter ended **June 30** are as follows:

	2018	2017
Interest income	1,616	1,918
Miscellaneous income	160,714	80,357
	₱ 162,330	₱ 82,275

17. 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:

	2018	2017	2016
Balance at beginning of year	₱ 625,500	₱ 583,800	₱ 542,100
Retirement provision	—	—	—
Balance at end of year	₱ 625,500	₱ 583,800	₱ 542,100

The provision for retirement benefits in 2018, 2017 and 2016 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.

18. INCOME TAX

On May 24, 2005, Republic Act (RA) No. 9337 changed the normal corporate income tax rate from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009.

The Group's rental income, net of certain deductions, from outside party (lessee) is subject to regular corporate income tax (RCIT) of 30% or minimum corporate income tax (MCIT) of 2% whichever is higher under Philippines Tax Laws.

A corresponding full valuation allowance has been established for deferred tax assets since management believes that it is more likely than not, that the carry-forward benefits will not be realized in the future.

The component of the Group's deferred tax assets as at June 30, 2018 and 2017 are as follows:

	2018	2017
NOLCO	₱14,871,998	₱12,815,138
Allowance for:		
Doubtful accounts	34,884,901	34,884,901
Impairment loss	109,550,831	109,550,831
Accrued retirement benefits	187,650	175,140
MCIT	211,308	198,099
Total	159,706,688	157,624,109
Unrecognized deferred tax assets	(159,706,688)	(157,624,109)
	₱—	₱—

19. 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		Outstanding Receivable		Terms and Condition
	June 30 2018	June 30 2017	June 30 2018	June 30 2017	
Receivable from related parties with common key management					

Philippine Estates Corp. (PHES)	₱–	(₱1,697,355)	₱10,897,335	₱10,897,335	(a)
Genwire Manufacturing Corp. (GMC)	–	150,000	318,506	318,506	(b)
	₱–	(₱1,547,355)	₱11,215,841	₱11,215,841	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30 2018	June 30 2017	June 30 2018	June 30 2017	
Advances to related parties with common key management					
Polymax Worldwide Limited (PWL)	₱–	₱–	₱105,060,000	₱105,060,000	(c)
The Wellex Group, Inc. (TWGI)	(612,541)	(3,006,566)	63,249,173	72,001,230	(c)
Concept Moulding Corp. (CMC)	-	4,120,128	4,385,541	4,339,061	(c)
Advances from Stockholders/ Key Management & Officers	-	(15,526,028)	-	7,898,370	(c)
	(13,566,091)	10,364,229	172,694,714	189,298,661	
Allowance for impairment	–	(1,792,546)	(58,205,806)	(56,413,260)	
	(₱13,566,091)	₱8,571,683	₱114,488,908	₱132,885,401	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30 2018	June 30 2017	June 30 2018	June 30 2017	
Advances from related parties with common key management					
Diamond Stainless Corp. (DSC)	11,787	11,787	132,858,010	132,846,223	(d)
Plastic City Corp. (PCC)	833,710	3,898,270	91,346,321	90,512,611	(d)
Philippine Estates Corp. (PHES)	1,107,832	542,129	29,911,475	28,803,643	(d)
International Polymer Corp. (IPC)	17,535,168	(17,203,523)	29,225,722	11,690,554	(d)
Kenstar Industrial Corp. (KIC)	–	-	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.	–	(4,898,679)	3,202,528	3,202,528	(d)
Asia Pacific Corp. (APC)	–	-	–	-	(d)
Concept Moulding Corp. (CMC)	-	-	–	-	(d)
	19,488,497	(17,650,016)	348,812,037	329,335,327	
Advances from stockholders/ key management					
Key management and officers	(34,096,569)	(42,982,068)	152,733,892	118,832,207	(e)
	(14,608,072)	(60,632,084)	501,545,929	448,167,534	

(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. 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. The Group did not provide any allowance for impairment for the amount of receivable as the entire amount is deemed collectible.

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. Total consultancy fees incurred for the quarters ended June 30, 2018 and 2017, amounted to ₱120,000 for both quarters, shown under 'Professional fees' account in the consolidated statements of comprehensive income. The agreement expired on April 30, 2018 and was renewed for another two (2) years last May 1, 2018.
- Lease Agreement for the Group's office space for a monthly rental of ₱20,000 inclusive of ₱1,500 VAT, ₱5,000 utilities, and ₱1,000 storage fee was renewed for another two (2) years commencing on May 1, 2018 to April 30, 2020. Total rent expense incurred for the second quarter of 2018 and 2017, amounted to ₱37,500 respectively, while utilities amounted to ₱18,000 for both quarters of 2018 and 2017.

The Group originally provides allowance for impairment amounting to ₱58,205,060 as at June 30, 2018 and 2017 on advances to TWGI prior to agreements entered to settle the outstanding advances. Allowance for impairment will be reversed once the unimpaired portion of advances is substantially collected and upon assessment by the management on the continuity of the existing agreements.

(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) 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.

(f) Collateral properties held by related parties

As at June 30, 2018 and 2017, the Group's investment properties with a carrying amount of ₱381.14 million, respectively, were used as collateral to secure loans obtained by related parties (see Note 8).

(g) 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.

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 three (3) years 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 ₱3,569,351 and ₱2,887,690 as at June 30, 2018 and 2017, respectively. Deferred rental income relative to the lease amounted to ₱1,804,520 as at June 30, 2018 and ₱2,142,165 as at June 30, 2017 as shown under 'Accounts payable and other liabilities' account (see Note 12).

The carrying amount of the buildings being leased out is ₱26,354,423 and ₱27,055,972 as at June 30, 2018 and 2017, respectively.

Outstanding balance of receivable from tenants as at June 30, 2018 and 2017 amounted to ₱5,544,576 and ₱2,615,662 respectively (see Note 5). Total rental income is ₱11,119,917 and ₱7,896,413 in June 30, 2018 and 2017, respectively.

21. MEMORANDUM OF AGREEMENT WITH AVIDA LAND CORPORATION

On December 17, 2012, PCIC subsidiaries, Pacific Plastic Corp. (PPC), Inland Container Corp. (ICC), Kennex Container Corp. (KCC), MPC Plastic Corp. (MPC) and related parties, Plastic City Corp. (PCC), Westland Pacific Properties Corp. (WPPC), International Polymer Corp. (IPC) and Philippine Estates Corp. (PHES) ('the Landowners'), entered into a Memorandum of Agreement (MOA) with Avida Land Corp. (ALC) for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based 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) payable in 10% down payment, which was received during the year, and with the balance payable in three (3) equal installments from 2013 to 2015.

As at June 30, 2018 and 2017, respectively, the outstanding balance of installment contract receivable amounted to ₱57,316,896, representing unpaid portion of the total contract price.

The contract to sell is covered by covenants, which among others, include the following:

- Prior to the payment of the balance of the purchase price, PPC shall not enter into any agreement to sell, dispose, convey, encumber or, in any manner, transfer or assign, whether by security or otherwise, PPC's right, title and interest in, and to the property, and whether such transfer shall be made with or without consideration.
- PPC shall not undertake any acts which may cause delay to the completion of the transaction or render ALC's title or claim to the property nugatory.

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 form Deed of Absolute Sale.

As at June 30, 2018, properties covered by the MOA has not been transferred to ALC. Accordingly, no payment has been made by ALC on the second installment.

22. INCOME (LOSS) PER SHARE

The following table presents information necessary to calculate the loss per share for quarter ended **June 30**:

	2018	2017	2016
Consolidated net income (loss) for the quarter	(₱3,433,507)	(₱3,642,327)	₱25,633,202
Weighted average number of common shares outstanding during the year	3,276,045,637	3,276,045,637	3,276,045,637
Income (loss) per share	(₱ 0.0011)	(₱ 0.0011)	₱ 0.0078

23. CONTINGENCIES

On September 7, 1999, the Board of Directors approved the execution of a third-party real estate mortgage on the Parent Company's properties located in Quezon City with an actual area of 6,678 square meters to secure the loan of Waterfront Philippines, Incorporated, 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 Parent Company filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of ₱500 million. A decision was issued on January 12, 2015 where the contract of loan and real estate mortgage were declared null and void. 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.

The Group's 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 June 30, 2018 and 2017.

24. 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 is managed on a Group basis. Credit risk arises from cash, trade and other receivables, installment contract receivable and advances to related parties.

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:

	June 30	
	2018	2017
Cash, excluding cash on hand – note 4	₱1,404,613	₱4,635,332
Trade and other receivables, at net amount - note 5	78,131,519	23,097,176
Installment contract receivable – note 21	57,316,896	57,316,896
Advances to related parties, at gross amount - note 19	114,488,908	184,959,600
	₱251,341,936	₱270,009,004

The aging of financial assets is shown below:

June 30, 2018	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	₱1,424,613	₱–	₱–	₱–	₱–	₱1,424,613
Trade and other receivables	78,131,519	–	–	–	58,077,198	136,208,717
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	114,488,908	58,205,806	172,694,714
	₱136,873,028	₱–	₱–	₱114,488,908	₱116,283,004	₱367,644,940

June 30, 2017	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	₱4,655,322	₱–	₱–	₱–	₱–	₱4,655,332
Trade and other receivables	954,856	756,587	450,285	20,935,448	5,408,960	28,506,136
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	128,546,340	56,413,260	184,959,600
	₱62,927,084	₱756,587	₱450,285	₱149,481,788	₱61,822,220	₱275,437,964

Impaired accounts represent account of customers 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.

Credit quality information for financial assets that are neither past due nor impaired

The credit quality of financial assets is being managed by the Group using internal credit ratings. Based on this, the management assessed that the financial assets that are neither past due nor impaired has high credit quality. This includes deposits to counterparties with good credit rating or bank standing.

June 30, 2018

Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	₱1,424,613	₱78,131,519	₱57,316,896	₱–	₱136,873,028
Moderate	–	–	–	–	–
Low	–	–	–	–	–
	₱1,424,613	₱78,131,519	₱57,316,896	₱–	₱136,873,028

June 30, 2017

Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	₱3,088,658	₱73,442,717	₱57,316,896	₱–	₱133,848,271
Moderate	–	–	–	–	–
Low	–	–	–	–	–
	₱3,088,658	₱73,442,717	₱57,316,896	₱–	₱133,848,271

The credit quality of financial assets is discussed below:

Cash in bank

The Group deposits its cash balance in a commercial and universal bank to minimize credit risk exposure.

Trade and other receivables

The Group assesses credit risk on trade accounts receivable for indicators of impairment by reviewing the age of accounts. Allowance for doubtful accounts had been provided to cover uncollectible balance. The Group does not hold any collateral as security for these 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 no experience of default of payments from the lessees. Consequently, the Group categorized its trade and other receivables as high grade quality.

Installment contract receivable

The Group assesses credit risk on installment contract receivable for indicators of impairment by reviewing the age of accounts. Land with aggregate carrying amount of ₱651,901,500 is held as collateral as security for this receivable (see Note 8).

Advances to related parties

As at June 30, 2018 and 2017, the Group classifies advances to related parties as past due but not impaired with exception on certain advances, which the Group has determined to be past due and impaired and sufficient allowance for doubtful accounts has been provided.

Advances to related parties generally have no specific credit terms. The Group does not hold any collateral as security on these receivables.

The management continues to review advances to related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower related parties to settle on a net basis. The Group also has entered into agreements with related parties for the settlement of advances, as disclosed in 18. Further, the Group

has identified real properties owned by related parties which can be used to settle the outstanding advances.

Certain advances to related parties were assessed to be impaired and allowance for doubtful accounts amounting to ₱58,205,806 and ₱56,413,260 as at June 30, 2018 and 2017 respectively, has been provided (see Note 19).

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, 2018 and 2017 would decrease/increase by ₱1,250,000 and Nil, 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 30, 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 – excluding government liabilities	₱–	₱6,617,617	₱–	₱6,617,617
Advances from related parties	501,545,929	–	–	501,545,929
Advances from lessees	–	3,569,351	–	3,569,351
	₱501,545,929	₱10,186,968	₱–	₱511,732,897

June 30, 2017	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	₱ –	₱6,705,005	₱ –	₱6,705,005
Advances from related parties	448,167,534	–	–	448,167,534
Advances from lessees	–	2,887,690	–	2,887,690
	₱448,167,534	₱9,592,695	₱ –	₱457,760,229

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 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.

25. 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 statement of financial position) less cash. Total capital is calculated as Equity as shown in the consolidated statement of financial position plus Net debt.

During the second quarter of 2018, the Group's strategy, which was unchanged from 2017, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at June 30, 2018 and 2017 were as follows:

	2018	2017
Accounts payable and other liabilities	₱13,149,545	₱13,882,712
Advances from lessees	3,569,351	2,887,690
Advances from related parties	501,545,929	448,167,534
Retirement benefits obligation	625,500	583,800
Gross debt	518,890,325	465,521,736
Cash	(1,424,613)	(4,655,332)
Net debt	517,465,712	460,866,404
Total equity	1,289,965,077	1,303,760,059
Total capital	₱1,807,430,789	₱1,764,626,463
Gearing ratio	28.63%	26.12%

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, 2018 and 2017, 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.

26. **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:

	June 30, 2018		June 30, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets classified as loans and receivables				
Cash, excluding cash on hand	₱ 1,424,613	₱ 1,424,613	₱ 4,635,332	₱ 4,635,332
Trade and other receivables	78,131,519	78,131,519	23,097,176	23,097,176
Installment contract receivable	57,316,896	57,316,896	57,316,896	57,316,896
Advances to related parties	114,543,604	114,543,604	128,546,340	128,546,340
	₱251,416,632	₱251,416,632	₱213,595,744	₱213,595,744

	June 30, 2018		June 30, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities classified as other financial liabilities				
Accounts payable and other liabilities, excluding government liabilities	₱ 6,617,617	₱ 6,617,617	₱ 6,705,005	₱ 6,705,005
Advances from related parties	501,545,929	501,545,929	448,167,534	448,167,534
Advances from lessees	3,569,351	3,569,351	2,887,690	2,887,690
	₱511,732,897	₱511,732,897	₱457,760,229	₱457,760,229

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

Financial assets

Cash and trade and other receivable - The carrying amounts of cash and trade and other receivables approximate fair values due to relatively short-term maturities.

Advances to related parties - The fair value of advances to affiliates and stockholders is not reasonably determined due to the unpredictable timing of future cash flows.

Installment contract receivable – The carrying amount of instalment contract receivable approximates is fair value as this receivable is non-interest bearing.

Financial liabilities

Accounts payable and other liabilities - The carrying amounts of accounts payable and other liabilities approximate fair values due to relatively short-term maturities.

Advances from lessees - The fair value of advances from lessees is not reasonably determined due to the unpredictable future cash outflow as refund for these amounts. Commonly these advances were applied by tenants to rental.

Advances from related parties - The fair value of advances from affiliates and stockholders is not reasonably determined due to the unpredictable timing of future cash flows.

27. RECLASSIFICATION

Certain accounts in 2017 consolidated financial statements were reclassified to conform to the current year's presentation.

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WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES
APPENDIX A – FINANCIAL SOUNDNESS
June 30, 2018

	June 30 2018	June 30 2017	December 31 2017
Profitability Ratios:			
Return on assets	Nil	Nil	Nil
Return on equity	Nil	Nil	Nil
Net profit margin	Nil	Nil	Nil
Gross profit margin	35.49%	56.72%	37.10%
Solvency and liquidity ratios:			
Current ratio	894.96%	578.65%	1024.08%
Debt to equity ratio	40.22%	35.71%	39.59%
Financial leverage ratios:			
Asset to equity ratio	140.22%	135.71%	139.59%
Debt to asset ratio	28.69%	26.32%	28.36%
Interest rate coverage ratio	Nil	Nil	Nil

WELLEX INDUSTRIES, INC. AND SUBSIDIARIES
APPENDIX B – ACCOUNTS RECEIVABLE AGING
As of June 30, 2018

	Current	1-30 days	31-60 days	Over 60 days	Total
Advances to third parties	₱-	₱-	₱-	₱118,920,195	₱118,920,195
Receivable from related parties	11,215,841	-	-	-	11,215,841
Rental receivable	1,133,144	1,113,711	1,093,435	2,204,287	5,544,576
Utilities receivable	183,559	165,057	37,803	106,947	493,366
Others	34,739	-	-	-	34,739
Subtotal	₱12,567,283	₱1,278,768	₱1,131,238	₱121,231,429	₱136,208,717
Allowance for doubtful accounts					(58,077,198)
Accounts receivable as of June 30, 2018					₱78,131,519

