



111142018000007



## 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

### Barcode Page

The following document has been received:

**Receiving Officer/Encoder** : Mark Anthony R. Osená

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : November 14, 2018 08:23:19 AM

**Received From** : Head Office

Company Representative

---

Doc Source

Company Information

---

SEC Registration No. 0000011790

Company Name WELLEX INDUSTRIES INC.

Industry Classification Miscellaneous Business Activities

Company Type Stock Corporation

### Document Information

---

Document ID 111142018000007

Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

Document Code 17-Q

Period Covered September 30, 2018

No. of Days Late 0

Department CFD

Remarks

**COVER SHEET**

0 0 0 0 0 1 1 7 9 0

SEC Registration No.

W E L L E X I N D U S T R I E S , I N C .  
 A N D S U B S I D I A R I E S

(Company's Full Name)

3 5 T H F L R . O N E C O R P O R A T E C E N T E R

D O Ñ A J U L I A V A R G A S C O R . M E R A L C O

A V E . , O R T I G A S C E N T E R , P A S I G C I T Y

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

Atty. Mariel L. Francisco

Contact Person

(632) 706-7888

Contact Telephone No.

1 2 3 1

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,004

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

3rd QUARTER REPORT: WIN

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the Quarterly Period ended September 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. **35<sup>th</sup> 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  
Outstanding:

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

Common Shares – ₱1.00 par value

Issued - ₱3,276,045,637

11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes [  ]                      No. [  ]
12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
Yes [  ]                      No [  ]
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes [  ]                      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			
	Jul –Sep 2018	Jul –Sep 2017	Jan – Sep 2018	Jan – Sep 2017
Rental income	P5,744,560	P4,456,848	P16,864,477	P12,353,262
Direct costs and expenses	3,584,930	1,700,064	10,493,787	5,117,513
Gross profit	2,159,630	2,756,784	6,370,690	7,235,749
Operating expenses	3,415,531	4,904,556	12,148,698	18,174,754
Income (loss) from operations	(1,255,901)	(2,147,772)	(5,778,007)	(10,939,005)
Other income (charges)	81,351	80,943	243,681	238,109
	(1,174,550)	(2,066,829)	(5,534,326)	(10,700,896)
Finance Cost	-	-	-	-
Net income (loss) before tax	(1,174,550)	(2,066,829)	(5,534,326)	(10,700,896)
Income tax expense	-	-	-	-
Net income (loss) for the period	(1,174,550)	(2,066,829)	(5,534,326)	(10,700,896)
Earnings (loss) per share	P0.0004	(P0.0006)	(P0.0017)	(P0.0011)

#### ▪ Unaudited Balance Sheet

	Amounts in Php		
	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Current assets	P152,132,233	P991,71,760	P141,909,665
Noncurrent assets	1,656,743,498	1,668,048,140	1,664,828,126
<b>Total Assets</b>	<b>1,808,875,731</b>	<b>1,767,219,900</b>	<b>1,806,737,791</b>
Current liabilities	17,335,274	16,396,959	13,857,246
Non-current liabilities	502,749,928	449,129,711	498,555,691
Stockholders' equity	1,288,790,529	1,301,693,230	1,294,324,854
<b>Total Liabilities &amp; Equity</b>	<b>P1,808,875,731</b>	<b>P1,767,219,900</b>	<b>P1,806,737,791</b>

#### Quarter ended September 30, 2018 as compared with quarter ended September 30, 2017

As of the quarter ending September 30, 2018, the group has ceased manufacturing operations and is currently leasing out its warehouse facilities. Total revenue recorded for the third quarter of 2018 amounted to P5.7 million as compared to the same quarter of 2017 amounting to P4.5 million or an increase of P1.3 million or 28.89%. Number of areas being leased out for the 3rd 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 September 30, 2018 and 2017 are P0.0004 and P0.0006, respectively.

As of September 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	12/31/17-12/31/18	500,894



4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/17-12/05/18	667,634
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/17-12/14/18	621,441
6	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	2,000	10/08/17-12/07/18	300,000
7	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	3,000	11/16/17-12/15/18	450,000
8	TRIPLE SEVEN J.R.T. BUILDERS - B15	1,100	07/01/18-12/31/18	241,607
9	GRACEFUL LOGISTICS	2,000	05/15/18-05/14/19	240,000
10	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/18-05/31/19	120,000
11	SAN MIGUEL PUREFOODS CO. INC - 43B	720	07/01/18-09/30/18	163,929
12	SAN MIGUEL BREWERY INC - bldg 23	3,105	04/01/18-04/30/19	665,357
13	SAN MIGUEL BREWERY INC - SHIPPING YARD	1,430	04/01/18-04/30/19	191,518
14	SAN MIGUEL BREWERY, INC - bldg 24	1,476	03/01/18-03/31/19	316,286
15	SAN MIGUEL BREWERY, INC - bldg 25 open yard	1,500	03/01/18-03/31/19	200,893
16	BIG THUMB ENTERPRISES - bldg 23 open space	35	03/01/18-03/31/19	9,000
17	GOENG MARKETING - bldg 26	524	01/01/18-12/31/18	112,286
18	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/18-01/15/19	225,000
19	RBSB ENTERPRISES - bldg 28	300	11/15/17-11/14/18	63,000
20	HIGANTIS CONTRACTOR CORP	697.50	08/01/18-07/31/19	168,147

Direct cost and operating expenses for the 3rd quarter of 2018 totaled ₱7.0 million as compared to ₱6.6 million for the 3rd quarter of 2017 or a decrease of ₱0.4 million or 6.06%. 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 3rd quarter of 2018 amounted to ₱3.6 million which is ₱1.8 million higher than cost incurred for the 3rd quarter of 2017. The increase is attributable to higher depreciation, security services and property taxes.
2. Operating expenses decreased by ₱1.50 million or 30.61% as a result of big decrease in depreciation charged to operation.

#### **Performance Indicators**

The Parent Company is still in the process of discussing with potential investors for its contemplated oil and mineral exploration projects. Its subsidiary, PCIC, ceased its manufacturing operations and has since concentrated on leasing out its warehouse facilities. As such, the Group determines their performance based on five (5) key indicators:

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 3rd quarter of 2018, the company has an average of ₱287,228 rental income per tenant or an increase of ₱64,386, rental income per tenant or 1.44% as compared to 3rd 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 third quarter of 2018, ratio of past due receivables to total outstanding was 91.92%.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. Third quarter of 2018 has a gross profit margin of 59.46% compared to 61.86% for the third 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 third quarter of 2018 was 877% as compared to 604.82% on the third quarter of 2017. Decrease is attributable to increase in both receivables and current liabilities.
5. Advances by the Affiliates - For the third quarter of 2018, the company has total advances from affiliates amounting to ₱502 million or an increase of ₱54 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 ₱5.1 million or 75.63% due to the following activities: (a) net cash used in operating activities for the quarter is ₱5.3 million, (b) net cash generated in investing activities for the quarter is ₱0.4 million and (c) net cash provided in financing activities for the quarter is ₱4.2 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 Development Corporation 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 ₱1.7 million or 1.00% 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 September 30, 2018 and 2017 is ₱3.6 million and ₱2.9 million, respectively or an increase of ₱0.7 million or 23.93% 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 continue to lease out its warehouse facilities.

On October 28, 2010, PCIC subsidiaries (namely ICC, PPC and KCC) with certain affiliates jointly filed a petition for corporate rehabilitation in order to revive its manufacturing operations. The legal proceedings culminated in a settlement agreement with the Philippine National Bank and the case was terminated in May 2018. Details of the matter are disclosed in Note 1 of the Notes to the 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 manufacturing operations and is currently leasing out its warehouse facilities.

Rental Income recorded for the 3rd quarter of 2018 compared to 2017 increased by 28.89% due to increase in rental rates to cover fixed expenses for terminated lease contracts. As of September 30, 2018, there are eleven (11) lessees occupying twenty (20) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to nine (9) 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 3rd quarter of 2018 is 569.84% with recorded current assets of ₱152 million over ₱26.7 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 currently leased out their warehouse/building facilities.

**(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 pertains 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
	Third Quarter	0.280	0.265
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 September 2018 (latest practical trading date) was closed at ₱0.270 for Class A, the only security traded by the Company, and there are 1,004 stockholders.

### (2) Holders

The numbers of shareholders of record as of September 30, 2018 were 1,004. Common shares issued and subscribed as of September 30, 2018 were 3,276,045,637

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**List of Top 20 Stockholders of Record**  
**September 30, 2018**

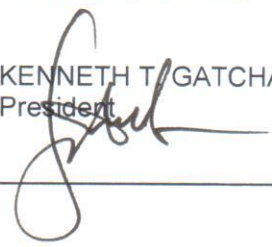
STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	PERCENTAGE TO TOTAL OUTSTANDING
PCD NOMINEE CORP.	FILIPINO	905,572,803	27.677
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	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-FILIPINO)	OTHERS	39,347,020	1.203
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 CORPORATION	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: 

MANDALUYONG SUBSCRIBED AND SWORN to before me this NOV 12 2018 day of \_\_\_\_\_, in \_\_\_\_\_ affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS	TAX IDENTIFICATION NO.
1. Kenneth T. Gatchalian	167-406-526
2. Atty. Mariel L. Francisco	224-150-060
3. Richard L. Ricardo	140-857-860

Doc. No.: SI  
Page No.: 11  
Book No.: 139  
Series of: 2018

  
**ATTY. JAMES K. ABUGAN**  
**NOTARY PUBLIC**  
Until Dec. 31, 2018  
IBP No. 021498/ 1-5-2018  
Rizal Chapter  
Roll No. 26890  
MCLE No. V-0004484-10/31/2014  
PTR # 3369955 – 01/05/2018  
Mandaluyong City  
TIN # 116-239-956  
Tel. 631-40-90

WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES  
Consolidated Statements of Financial Position

"ANNEX A.1"

	Unaudited September 30 2018	Unaudited September 30 2017	Audited December 31 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash - note 4	P 1,650,832	P 6,772,295	P 2,429,039
Trade and other receivables (net) – note 5	80,137,942	22,737,865	70,276,179
Installment contract receivable – note 21	57,316,896	57,316,896	57,316,896
Prepaid taxes – note 6	13,026,563	12,344,704	11,887,551
	<b>152,132,233</b>	<b>99,171,760</b>	<b>141,909,665</b>
<b>Noncurrent Assets</b>			
Available-for-sale financial assets – note 7	12,500,000	-	12,500,000
Advances to related parties – note 19	114,448,583	115,398,573	114,852,847
Investment in Shares	-	12,500,000	-
Investment properties (net) – note 8	977,231,354	978,809,328	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	9,553,532	18,586,284	15,190,779
Other assets	436,918	180,844	180,844
	<b>1,656,743,498</b>	<b>1,668,048,140</b>	<b>1,664,828,126</b>
<b>TOTAL ASSETS</b>	<b>P1,808,875,731</b>	<b>P1,767,219,900</b>	<b>P1,806,737,791</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable & other current liabilities - note 12	P 13,745,272	P 13,500,269	P 10,960,233
Advances from lessees – note 19	3,590,003	2,896,690	2,897,013
Borrowings (net of noncurrent portion) – note 11	-	-	-
	<b>17,335,274</b>	<b>16,396,959</b>	<b>13,857,246</b>
<b>Noncurrent Liabilities</b>			
Borrowings – note 11	-	30,011	-
Advances from related parties – note 19	502,124,428	448,515,900	497,930,191
Retirement benefits obligation – note 17	625,500	583,800	625,500
	<b>502,749,928</b>	<b>449,129,711</b>	<b>498,555,691</b>
<b>Equity</b>			
Capital stock – note 13	P3,276,045,637	P3,276,045,637	P3,276,045,637
Additional paid-in capital	24,492,801	24,492,801	24,492,801
Deficit	(2,011,737,909)	(1,998,835,208)	(2,006,203,584)
	<b>1,288,800,529</b>	<b>1,301,703,230</b>	<b>1,294,334,854</b>
Treasury stock	(10,000)	(10,000)	(10,000)
	<b>1,288,790,529</b>	<b>1,301,693,230</b>	<b>1,294,324,854</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,808,875,731</b>	<b>P1,767,219,900</b>	<b>P1,806,737,791</b>

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



## WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES

"ANNEX A.2"

## Consolidated Statements of Comprehensive Income

	Jul-Sep 2018	Jul-Sep 2017	Jan – Sep 2018	Jan – Sep 2017
RENTAL INCOME - notes 8 and 19	<b>₱5,744,560</b>	₱4,456,848	<b>₱16,864,477</b>	₱12,353,262
DIRECT COSTS AND EXPENSES – note 14	<b>3,584,930</b>	1,700,064	<b>10,493,787</b>	5,117,513
GROSS PROFIT	<b>2,159,630</b>	2,756,784	<b>6,370,690</b>	7,235,749
OPERATING EXPENSES - note 15	<b>3,415,531</b>	4,904,556	<b>12,148,698</b>	18,174,754
(LOSS) INCOME FROM OPERATIONS	<b>(1,255,901)</b>	(2,147,772)	<b>(5,778,007)</b>	(10,939,005)
OTHER INCOME (CHARGES) (net) - note 16	<b>81,351</b>	80,943	<b>243,681</b>	238,109
	<b>(1,174,550)</b>	(2,066,829)	<b>(5,534,326)</b>	(10,700,896)
FINANCE COST	-	-	-	-
INCOME (LOSS) BEFORE TAX	<b>(1,174,550)</b>	(2,066,829)	<b>(5,534,326)</b>	(10,700,896)
INCOME TAX EXPENSE – note 18	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>(₱1,174,550)</b>	<b>(₱2,066,829)</b>	<b>(₱5,534,326)</b>	<b>(₱10,700,896)</b>
Income (loss) per share - note 22	<b>(₱0.0004)</b>	<b>(₱0.0006)</b>	<b>(₱0.0017)</b>	<b>(₱0.0033)</b>

*(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 September 30 2018	Unaudited September 30 2017	Audited December 31 2017
CAPITAL STOCK	P3,276,045,637	P3,276,045,637	P3,276,045,637
ADDITIONAL PAID IN CAPITAL	24,492,801	24,492,801	24,492,801
DEFICIT			
Balance - beginning of the period	(2,006,203,583)	(1,988,134,312)	(1,988,134,312)
Net income (loss) for the period	(5,534,326)	(10,700,896)	(18,069,272)
Balance - end of the period	(2,011,737,909)	(1,998,835,208)	(2,006,203,584)
TREASURY STOCK	(10,000)	(10,000)	(10,000)
<b>TOTAL EQUITY</b>	<b>P1,288,790,529</b>	<b>P1,301,693,230</b>	<b>P1,294,324,854</b>

*(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 September 30 2018	Unaudited September 30 2017	Audited December 31 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax from continued & discontinued operations	(P5,534,326)	(P10,700,896)	(17,306,085)
Adjustments for:			
Depreciation – notes 8 and 10	7,936,438	12,085,404	14,759,692
Provision for retirement benefits	-	-	41,700
Finance costs – note 11	-	7,129	1,115,336
Interest income – note 4	(994)	(4,167)	(6,071)
Operating income (loss) before working capital changes	2,401,118	1,387,470	(1,395,428)
Decrease (increase) in:			
Trade and other receivables	(9,861,763)	49,298,282	(2,200,126)
Prepaid expenses	(1,139,012)	(856,827)	(399,674)
Other Assets	(256,074)	-	-
Increase (decrease) in:			
Accounts payable and other current liabilities	2,785,039	(1,924,535)	(258,930)
Advances from lessees	692,990	321,895	322,218
Net cash from (used in) operations	(5,377,702)	48,226,285	(3,931,940)
Interest received	994	4,167	6,071
Income tax paid	-	-	(763,186)
Net cash from (used in) operating activities	(5,377,702)	48,230,452	(4,689,055)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Collection (grant) of advances to related parties	404,264	3,231,595	16,032,223
Acquisition of available-for-sale financial assets - note 7	-	-	(12,500,000)
Net cash generated from investing activities	340,007	3,231,595	3,532,223
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of advances from related parties - note 19	4,194,237	(48,306,460)	1,107,831
Payment of borrowings	-	(129,158)	(159,619)
Finance cost paid	-	(7,129)	(1,115,336)
Net cash from (used in) financing activities	4,194,237	(48,442,747)	(167,124)
<b>NET INCREASE (DECREASE) IN CASH</b>	(778,207)	3,019,300	(1,323,956)
<b>CASH – notes 4</b>			
At beginning of the period	2,429,039	3,752,995	3,752,995
At end of the period	P1,650,832	P6,772,295	P 2,429,039

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

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

**Corporate Information**

Wellex Industries Incorporated (the 'Parent Company') was incorporated in the Philippines on October 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	
		Sep 30 2018	Sep 30 2017
<b>Direct Ownership</b>			
Plastic City Industrial Corporation (PCIC)	Manufacturing	100%	100%
<b>Indirect Ownership (Subsidiaries of PCIC)</b>			
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 September 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 September 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 September 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 September 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 Expenses**

This account comprises of prepaid expenses amounted to ₱33,936.00 as well as creditable withholding taxes and unused input VAT.

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

#### **Equity**

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).

#### *Realization 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 September 30, 2018 and 2017, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱2,707,365 and ₱1,395,088 as at September 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 September 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 ₱195,532,036 and ₱195,453,334 as at September 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 September 30, 2018 and 2017 are as follows:

	Sep 2018	Sep 2017
Property and equipment - note 10	P9,553,532	P18,586,284
Investment properties - note 8	57,865,374	59,443,348
	<b>P67,418,906</b>	<b>P78,029,632</b>

*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 P365,169,438 and P365,169,438 as at September 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 September 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 September 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 September 30 are as follows:

	Sep 2018	Sep 2017
Cash on hand	P20,000	P 20,000
Cash in bank	1,630,832	6,752,295
	<b>P 1,650,832</b>	<b>P 6,772,295</b>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from deposits amounted to P994 and P 4,167 for the quarter ended September 30, 2018 and 2017.

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

**5. TRADE AND OTHER RECEIVABLES (net)**

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

	Sep 2018	Sep 2017
Advances to third parties	P118,920,195	-

Receivable from related parties – note 19	11,215,841	₱15,554,901
Rental receivables – note 20	7,474,353	-
Utilities receivables	604,750	-
Trade & other receivables	-	12,591,924
	<b>138,215,140</b>	<b>28,146,825</b>
Allowance for doubtful accounts	<b>(58,077,198)</b>	<b>(5,408,960)</b>
	<b>₱80,137,942</b>	<b>₱22,737,865</b>

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

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

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

The Group's receivables as at September 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 September 30 are as follows:

	Sep 2018	Sep 2017
Creditable withholding tax	10,319,198	10,949,616
Input VAT	2,707,365	1,395,088
	<b>₱13,026,563</b>	<b>₱12,344,704</b>

As at September 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 Development Corporation 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 September 30, 2018 are not held as collateral for its financial liabilities.

#### 8. INVESTMENT PROPERTIES (net)

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

	Land	Land Improvements	Buildings and Improvements	Total
Cost				
At beginning & 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	-	-	2,299,191	2,299,191
At end of period	980,176,630	-	234,462,963	1,214,639,593
Accumulated impairment loss				
At beginning and end of period	60,810,650	-	176,597,589	237,408,239
Net carrying amounts, Sep30	₱919,365,980	₱	₱57,865,374	₱977,231,354

Details of investment properties as at September 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	77,129,946
Depreciation	-	-	2,299,191	2,299,191
At end of year	980,176,630	-	236,040,937	1,216,217,567
Accumulated impairment loss				
At beginning and end of year	60,810,650	-	176,597,589	237,408,239
Net carrying amounts, Sep30	₱ 919,365,980	₱ -	₱ 59,443,348	₱ 979,809,328

Rental income earned on the above investment properties amounted to ₱5.7 million and ₱12.4 million for the quarters ended September 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 ₱3.6 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 September 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 September 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 September 30, 2018 and 2017, were mortgaged with PNB to secure the loans obtained by related parties (see Notes 1 and 19). As of September 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:

	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
<b>Net carrying amounts</b>	<b>₱542,573,111</b>	<b>₱542,573,111</b>

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 September 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 third quarter of 2018.

#### 10. PROPERTY, PLANT AND EQUIPMENT (net)

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

	Building and Improvement	Machinery and Equipment	Transportati on Equipment and Tools	Furniture and Fixtures	Total
Cost					
At beginning & end of period	₱ 800,000	₱547,522,657	₱8,203,282	₱8,828,122	₱565,354,061
Accumulated depreciation					
At beginning of period	800,000	452,216,759	8,203,282	8,823,042	470,043,083
Depreciation	-	5,632,167	-	5,080	5,637,247
Balance at end of period	800,000	457,848,926	8,203,282	8,828,122	475,680,330
Impairment loss					
Balance at beginning and end of period	-	80,120,199	-	-	80,120,199
Net carrying amounts	₱ -	₱9,553,532	₱ -	₱ -	₱9,553,532

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

	Building and Improvements	Machinery and Equipment	Tools and Equipment	Furniture and Fixtures	Total
Cost					
At beginning & 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	-	9,628,713	151,786	5,714	9,786,213
Balance at end of year	800,000	448,856,889	8,169,552	8,821,137	466,647,578
Impairment loss					
Balance at beginning and end of year	-	80,120,199	-	-	80,120,199
Net carrying amounts	₱ -	₱18,545,569	₱ 33,730	₱ 6,985	₱18,586,284

Total depreciation allocated to operation amounted to ₱5,637,247 and ₱2,762,450 for the third 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 September 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 September 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 equipment. 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 of September 30, 2018 and 2017 amounted to nil and ₱30,011 respectively.

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

Finance costs charge to operations amounted to nil and ₱7,129 for the quarters ended September 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 September 30 are as follows:

	Sep 2018	Sep 2017
Accounts payable and accruals	₱5,157,650	₱ 4,407,548
Government liabilities	6,564,450	7,046,285
Deferred rental	2,023,171	1,927,303
Other payables	-	119,133
	<b>₱13,745,272</b>	<b>₱13,500,269</b>

Accounts payable pertains to the amount due to suppliers' payable from thirty (30) to ninety (90) days from the date of sale and do not bear any interest.

Government liabilities pertain 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 September 30, 2018 and 2017.

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

#### 13. CAPITAL STOCK

Details of the Parent Company's capital stock as at September 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
	<b>₱3,276,035,637</b>	<b>₱3,276,035,637</b>	<b>₱3,276,035,637</b>

*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 P1 per share. It was approved by the SEC on January 15, 1996. This was also done in order to recall all outstanding stock certificates and be able to account for the over-issuance of shares which management has decided to be absorbed by the Parent Company.

On January 8, 1996, the Parent Company filed with the SEC a motion to increase its authorized capital stock from ₱15 million divided into 15 million shares to ₱1 billion divided into 1 billion shares with a par value of P1. The increase was approved by the SEC on May 16, 1996. Subscriptions to the increase in authorized capital stock were made through stocks-for-assets swap.

On September 2, 1996, the Board of Directors and the stockholders approved a resolution to amend the Parent Company's Articles of Incorporation changing the par value per share of its capital stock from ₱0.01 to ₱1.00, removing the pre-emptive rights of shareholders and increasing the authorized capital stock from ₱500 million divided by 50 billion shares with a par value of ₱0.01 per share to ₱2.0 billion divided into 2.0 billion shares with a par value of ₱1.00 per share. The proposed amendments were approved by the SEC on September 27, 1996.

Relative to the approval of the proposed amendment, any part of such stock or other securities may, at any time, be issued, optioned for sale and sold or disposed of by the Parent Company pursuant to resolution of the Board of Directors, to such persons and upon such terms as the Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.

On August 22, 1997, the Board of Directors and the stockholders approved a further increase in the Parent Company's authorized capital stock from ₱2.0 billion to ₱3.5 billion divided into 3.5 billion shares with a par value of ₱1.00 per share. On March 11, 1998, the SEC approved the increase in the Parent Company's authorized capital stock.

As at September 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 September 30, 2018, 2017 and 2016, is 4,107,457. Outstanding shares owned by the public as at September 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
<b>September 30, 2018</b>	<b>₱ 0.270</b>
September 30, 2017	0.194
September 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 September 30 are as follows:

	2018		2017	
	Jul – Sep	Jan – Sep	Jul – Sep	Jan – Sep
Security services	₱853,309	₱2,559,928	₱ 853,309	₱ 2,559,928
Depreciation	766,397	2,299,191	766,397	2,299,191
Property taxes	617,455	3,389,578	-	-
Repairs and maintenance	1,347,768	2,245,089	80,358	258,394
	<b>₱3,584,930</b>	<b>₱10,493,787</b>	<b>₱ 1,700,064</b>	<b>₱ 5,117,513</b>



**15. OPERATING EXPENSES**

Operating expenses for the quarters ended September 30 are as follows:

	2018		2017	
	Jul – Sep	Jan – Sep	Jul – Sep	Jan – Sep
Professional fees	₱189,000	₱1,563,000	₱ 426,011	₱ 1,968,374
Salaries and wages	625,408	1,556,142	502,446	1,514,184
Depreciation	1,879,083	5,637,247	2,762,450	9,786,213
Rent, light and water	212,691	807,949	249,310	714,811
Taxes and licenses	214,270	848,537	341,314	1,369,046
Commission	91,474	456,236	193,266	380,260
SSS, Medicare and EC contributions	31,534	101,484	34,586	97,090
Others	172,071	1,178,102	395,173	2,344,776
	₱ 3,415,531	₱12,148,698	₱ 4,904,556	₱ 18,174,754

**16. OTHER INCOME (LOSS) (NET)**

Other income (loss) for the quarter ended September 30 is as follows:

	Sep 2018	Sep 2017
Interest income	₱ 994	₱ 1,963
Finance Cost	-	(1,377)
Gain on Sale of Investment Property	80,357	80,357
Miscellaneous income	-	-
	₱81,351	₱ 80,943

**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	₱ 583,300	₱ 542,100
Retirement provision	-	-	-
Balance at end of year	₱ 625,500	₱ 583,300	₱ 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 September 30, 2018 and 2017 are as follows:

	Sep 2018	Sep 2017
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 -

#### 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
	Sep 30 2018	Sep 30 2017	Sep 30 2018	Sep 30 2017	
<b>Receivable from related parties with common key management</b>					
Philippine Estates Corp (PHES)	P -	(P1,697,355)	P 10,897,335	P 10,897,335	(a)
Genwire Manufacturing Corp (GMC)	-	150,000	318,506	318,506	(b)
	P -	(P1,547,355)	P 11,215,841	P 11,215,841	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	Sep 30 2018	Sep 30 2017	Sep 30 2018	Sep 30 2017	
<b>Advances to related Parties with common key management</b>					
Polymax Worldwide Limited (PWL)	P -	P -	P 105,060,000	P 105,060,000	(c)
The Wellex Group, Inc. (TWGI)	4,368,860	(14,785,366)	63,208,848	58,839,988	(c)
Concept Moulding Corp (CMC)	46,480	4,120,128	4,385,541	4,339,061	(c)
Advances from Stockholders/ Key Management & Officers	(7,911,845)	(14,127,362)	-	7,911,845	(c)
	(3,496,505)	(24,792,600)	172,654,389	176,150,894	
Allowance for impairment	(1,792,546)	-	(58,205,806)	(56,413,260)	
	(P5,289,051)	(P24,792,600)	P114,448,583	P119,737,634	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	Sep 30 2018	Sep 30 2017	Sep 30 2018	Sep 30 2017	
<b>Advances from related parties with common key management</b>					
Diamond Stainless Corp (DSC)	P -	P11,678	P132,858,010	P132,858,010	(d)
Plastic City Corp. (PCC)	1,257,559	4,049,706	91,921,606	90,664,047	(d)
Philippine Estates Corp	1,107,832	542,129	29,911,475	28,803,643	(d)



(PHES)					
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)	-	(4,046,257)	-	-	(d)
Concept Moulding Corp (CMC)	-		-	-	(d)
		(21,544,946)	349,387,322	329,486,763	
<b>Advances from stockholders/key management</b>					
Key management and officers	5,381,688	5,159,383	152,737,106	158,118,794	(e)
	<b>P 14,518,871</b>	<b>(P16,385,563)</b>	<b>P502,124,428</b>	<b>P487,605,557</b>	

(a) *Receivable from venturer*

The Group has outstanding receivable from PHES pertaining to the Group's share in the proceeds of the lot sold in 2015 held as interest in joint venture (see Note 9). This receivable is unsecured, unguaranteed and to be settled in cash.

(b) *Receivable from related parties with common key management*

The Group pays operating expenses on behalf of GMC. These receivables are normally collected the following year, unsecured, non-interest bearing and with no guarantee. 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. Total consultancy fees incurred for the quarters ended September 30, 2018 and 2017, amounted to P120,000 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 P20,000 inclusive of P1,500 VAT, P5,000 utilities, and P1,000 storage fee was renewed for another two (2) years commencing on May 1, 2018 to April 30, 2020. Total rent expense incurred for the third quarter of 2018 and 2017, amounted to P37,500 respectively, while utilities amounted to P18,000 for both quarters of 2018 and 2017.

The Group originally provides allowance for impairment amounting to P58,205,060 as at September 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 September 30, 2018 and 2017, the Group's investment properties with a carrying amount of ₱381.14 million and ₱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 ₱3,590,003 and ₱2,896,690 as at September 30, 2018 and 2017, respectively. Deferred rental income relative to the lease amounted to ₱2,023,171 as at September 30, 2018 and ₱1,927,303 as at September 30, 2017 as shown under 'Accounts payable and other liabilities' account (see Note 12).

The carrying amount of the buildings being leased out is ₱977,231,354 and ₱978,809,328 as at September 30, 2018 and 2017, respectively.

Outstanding balance of receivable from tenants as at September 30, 2018 and 2017 amounted to ₱7,474,353 and ₱1,783,570 respectively (see Note 5). Total rental income is ₱16,864,477 and ₱12,353,262 in September 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 September 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 September 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 September 30:

	2018	2017
Consolidated net income (loss) for the quarter	(₱ 1,174,550)	(₱ 2,066,829)
Weighted average number of common shares outstanding during the year	3,276,045,637	3,276,045,637
Income (loss) per share	(₱0.0004)	(₱0.0006)

## 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 September 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:

	Sep 2018	Sep 2017
Cash, excluding cash on hand – note 4	<b>₱1,630,832</b>	₱ 6,752,295
Trade and other receivables, at net amount - note 5	<b>80,137,942</b>	22,737,865
Installment contract receivable – note 21	<b>57,316,896</b>	57,316,896
Advances to related parties, at net amount - note 19	<b>114,448,583</b>	115,398,573
	<b>₱253,554,253</b>	₱ 202,225,629

The aging of financial assets is shown below:

Sep 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	₱1,650,832	₱ -	₱ -	₱ -	₱ -	₱1,650,832
Trade and other receivables	80,137,942	-	-	-	58,077,198	138,215,140
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	114,448,583	58,205,806	172,654,389
	<b>₱139,105,670</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱114,448,583</b>	<b>₱116,283,004</b>	<b>₱369,837,257</b>

Sep 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	₱ 6,752,295	₱ -	₱ -	₱ -	₱ -	₱ 6,752,295
Trade and other receivables	1,015,125	770,830	330,367	20,621,543	5,408,960	28,146,825
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	115,398,573	56,413,260	171,811,833
	<b>₱ 65,084,316</b>	<b>₱770,830</b>	<b>₱330,367</b>	<b>₱136,020,116</b>	<b>₱ 61,822,220</b>	<b>₱264,027,849</b>

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.

Sep 30, 2018



Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	P 1,650,832	P 80,137,942	P 57,316,896	P -	P 139,105,670
Moderate	-	-	-	-	-
Low	-	-	-	-	-
	P 1,650,832	P 80,137,942	P 57,316,896	P -	P 139,105,670

Sep 30, 2017

Neither past due nor impaired	Cash in bank	Trade and other receivables	Installment contract receivable	Advances to related parties	Total
High	P 6,752,295	P 22,737,865	P 57,316,896	P -	P 86,827,056
Moderate	-	-	-	-	-
Low	-	-	-	-	-
	P 6,752,295	P 22,737,865	P 57,316,896	P -	P 86,827,056

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 P651,901,500 is held as collateral as security for this receivable (see Note 8).

*Advances to related parties*

As at September 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 September 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 September 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.

Sep 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	₱ -	₱7,180,822	₱ -	₱7,180,822
Advances from related parties	502,124,428	-	-	502,124,428
Advances from lessees	-	3,590,003	-	3,590,003
	₱502,124,428	₱10,770,824	₱ -	₱512,895,252

Sep 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	₱ -	₱ 6,453,984	₱ -	₱ 6,453,984
Advances from related parties	448,515,900	-	-	448,515,900
Advances from lessees	-	2,896,690	-	2,896,690
	₱ 448,515,900	₱ 9,350,674	₱ -	₱ 457,866,574

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 third 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 September 30, 2018 and 2017 were as follows:

	Sep 2018	Sep 2017
Accounts payable and other liabilities	₱ 13,745,272	₱ 13,500,269
Advances from lessees	3,590,003	2,896,690
Advances from related parties	502,124,428	448,515,900
Retirement benefits obligation	625,500	583,800
Gross debt	520,085,202	465,496,659
Cash	(1,650,832)	(6,772,295)
Net debt	521,736,034	458,724,364
Total equity	1,288,790,529	1,301,693,230
Total capital	₱1,810,526,563	₱1,760,417,594
Gearing ratio	28.82%	26.06%

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 September 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:

	Sep 30, 2018		Sep 30, 2017	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets classified as loans and receivables</b>				
Cash, excluding cash on hand	₱ 1,630,832	₱ 1,630,832	₱ 6,752,295	₱ 6,752,295
Trade and other receivables	80,137,942	80,137,942	22,737,865	22,737,865
Installment contract receivable	57,316,896	57,316,896	57,316,896	57,316,896
Advances to related parties	114,448,583	114,448,583	115,398,573	115,398,573
	<b>₱253,534,253</b>	<b>₱253,534,253</b>	<b>₱ 202,205,629</b>	<b>₱ 202,205,629</b>

	Sep 30, 2018		Sep 30, 2017	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities classified as other financial liabilities</b>				
Accounts payable and other liabilities, excluding government liabilities	₱7,180,822	₱7,180,822	₱ 6,453,984	₱ 6,453,984
Advances from related parties	502,124,428	502,124,428	448,515,900	448,515,900
Advances from lessees	3,590,003	3,590,003	2,896,690	2,896,690
	<b>₱512,895,252</b>	<b>₱512,895,252</b>	<b>₱ 457,866,574</b>	<b>₱ 457,866,574</b>

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.

\* \* \*



**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
September 30, 2018

	Sep 30 2018	Sep 30 2017	Dec 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	59.46%	61.86.%	37.10%
Solvency and liquidity ratios:			
Current ratio	877%	604.82%	1024.08%
Debt to equity ratio	40.35%	35.76%	39.59%
Financial leverage ratios:			
Asset to equity ratio	140.35%	135.76%	139.59%
Debt to asset ratio	28.75%	26.34%	28.36%
Interest rate coverage ratio	Nil	Nil	Nil

**WELLEX INDUSTRIES, INC. AND SUBSIDIARIES**  
**APPENDIX B – ACCOUNTS RECEIVABLE AGING**  
**As of September 30, 2018**

	Current	1-30 days	31-60 days	Over 60 days	Total
Advances to third parties	P -	P -	P -	P118,920,195	P118,920,195
Receivable from related parties	-	-	-	11,215,841	11,215,841
Rental receivable	1,670,830	1,007,726	915,639	3,880,160	7,474,354
Utilities receivable	158,287	152,093	88,051	206,319	6,047,50
Others	-	-	-	-	-
Subtotal	P1,829,117	P1,159,819	P1,003,690	P134,222,514	P138,215,140
Allowance for doubtful accounts	-	-	-	-	(58,077,198)
Accounts receivable as of September 30, 2018					P80,137,942