



108042016006014



# SECURITIES AND EXCHANGE COMMISSION

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Company Information

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**SEC Registration No.** 0000011790  
**Company Name** WELLEX INDUSTRIES INC.  
**Industry Classification** Miscellaneous Business Activities  
**Company Type** Stock Corporation

## Document Information

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

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

1. For the Quarterly Period ended **June 30, 2016**
  
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. **REPUBLIC RESOURCES AND DEVELOPMENT CORPORATION**  
**22<sup>nd</sup> Flr. Citibank Tower, 8741 Paseo De Roxas, Makati City**  
**Former name**, former address, and former fiscal year, if changed since last report.

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

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding: and Amount of Debt Outstanding</u>
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Common Shares – P1.00 par value	Issued - P3,276,045,637.00
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11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [ x ] No. [ ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ x ]      No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [ x ]      No [ ]

13. The aggregate market value of the voting stock held by non-affiliates: P120,654,737.00

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.5, and the accompanying notes to financial statements

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

- Unaudited Income Statement

	Amounts in Php			
	April – June 2016	April – June 2015	Jan – Jun 2016	Jan – Jun 2015
Rental income	3,822,795	3,368,091	7,689,283	7,138,525
Direct costs and expenses	1,789,695	1,659,472	3,523,682	3,338,558
Gross profit	2,033,097	1,708,619	4,165,601	3,799,967
Operating expenses	6,393,963	6,463,121	12,695,548	11,497,680
Income (loss) from operations	(4,360,866)	(4,754,502)	(8,529,947)	(7,697,713)
Other income (charges)	30,318,023	(19,909)	17,811,939	(19,737)
Net income (loss) before tax	25,957,157	(4,774,411)	9,281,992	(7,717,450)
Income tax expense	(323,955)	(300,710)	(323,955)	(300,710)
Net loss for the period	25,633,202	(5,075,121)	8,958,037	(8,018,160)
Earnings (loss) per share	₱0.0078	(₱ 0.0015)	₱0.0027	(₱ 0.0024)

- Unaudited Balance Sheet

	Amounts in Php		
	June 30, 2016	June 30, 2015	December 31, 2015
Current assets	91,418,393	72,247,286	85,762,439
Advances to affiliates	147,105,632	123,321,030	119,733,275
Investment properties	983,429,919	697,281,235	1,003,957,213
Investment in joint operation	542,573,111	393,183,154	542,573,111
Property and equipment – net	34,601,361	69,954,367	45,710,450
Other assets	180,844	180,844	180,844
<b>Total Assets</b>	<b>1,799,309,260</b>	<b>1,356,167,919</b>	<b>1,797,917,332</b>
Current liabilities	18,941,618	25,253,542	26,323,521
Non-current liabilities	509,582,896	517,457,542	514,555,266
Stockholders' equity	1,270,784,745	813,456,835	1,257,038,545
<b>Total Liabilities &amp; Equity</b>	<b>1,799,309,260</b>	<b>1,356,167,919</b>	<b>1,797,917,332</b>

#### Quarter ended June 30, 2016 as compared with quarter ended June 30, 2015

As of the quarter ending June 30, 2016, the company has ceased commercial operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the second quarter of 2016 amounted to ₱3.8 million as compared to the same quarter of 2015 amounting to ₱3.4 million or an increase of ₱0.4 million or 11.76%. Number of areas being leased out for the second quarter of 2016 is lower than the same quarter of 2015 but rental rates are adjusted higher to cover fixed and overhead expenses. On April 6, 2016, Rexlon Industrial, Inc., a PCIC subsidiary, sold two parcels of land for a total selling price of ₱32.3 million. The Group recognized gain on the sale of this property amounting to ₱30.2 million as reflected on the other income portion of the Statement of Comprehensive Income.

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.

Earnings (loss) per share comparison for the quarter ended June 30, 2016 and 2015 are ₱0.0078 and (₱0.0015), respectively.

As of June 30, 2016, there are seven (7) companies leasing inside the PCIC compound occupying sixteen (16) areas. List of companies are as follows:

No.	Name of Lessee	Co.	Bldg. No.	Area in sqm	Contact Period	Monthly Rental Income (Exclusive of 12%VAT) Php
1	SMYPC – Manila Plastic Plant	ICC	30	3,105	01.01.16 – 09.30.16	330,000.00
2	SMYPC – Manila Plastic Plant	ICC	32	3,052	01.05.16 – 09.05.16	480,690.00
3	SMYPC – Manila Plastic Plant	ICC	33	2,340	01.14.16 – 09.14.16	456,750.00
4	SMYPC – Manila Plastic Plant	ICC	34	800	01.23.16 – 06.23.16	195,000.00
5	SMYPC – Manila Glass Plant	ICC	25	1,476	01.01.16 – 09.30.16	243,870.00
6	SMYPC – Manila Glass Plant	ICC	22-A	1,134	12.12.15 – 09.05.16	170,100.00
7	SMYPC – Manila Glass Plant	ICC	22-B	1,134	12.05.15 – 09.05.16	170,100.00
8	Fabri-Galv Services Limites Co.	KCC	15	3,052	01.01.16 – 05.31.16	121,500.00
9	Carter Industrial Corp.	KCC	19	1,050	04.01.15 – 09.30.16	297,000.00
10	Sta. Rita 168 Builders Corp.	KCC	29	1,050	06.01.16 – 09.30.16	60,500.00
11	Big Thumb Enterprises	PPC	23 open space	35	05.01.15 – 09.30.16	5,580.42
12	San Miguel Brewery, Inc.	PPC	Shipping yard	1,430	05.01.15 – 09.30.16	149,887.23
13	San Miguel Brewery, Inc.	PPC	23	3,105	05.01.15 – 09.30.16	650,908.92
14	San Miguel Brewery, Inc.	PPC	24	1,476	12.01.15 – 09.30.16	243,540.00
15	San Miguel Brewery, Inc.	PPC	25 open yard	1,476	12.01.15 – 09.30.16	135,000.00
16	Goeng Marketing	PPC	26	524	01.01.16 – 09.30.16	82,530.00

Direct cost and operating expenses for the second quarter of 2016 totaled ₱8.2 million as compared to ₱8.1 million for the second quarter of 2015 or an increase of ₱0.1 million or 1.23%. The amount was recorded and mainly attributable to the following:

1. Direct cost consists of depreciation expense, repairs and maintenance, security services and property taxes. Total direct cost recorded for the second quarter of 2016 amounted to ₱1.8, higher by ₱0.1 million compared to second quarter of 2015 due to repairs and maintenance on buildings made for the current quarter.
2. Salaries and wages and benefits recorded for the second quarter of 2016 amounted to ₱0.8 million, higher by ₱0.1 million compared to second quarter of 2015 due to separation pay of terminated employees and semi-annual bonuses availed for the quarter.
3. Professional fees decreased by ₱0.2 million due to decrease in legal fees for concluded cases and due to higher audit fees paid for the second quarter of 2015.
4. Total commission expense recorded for the quarter ended June 30, 2016 was ₱67,504 lower than incurred for the second quarter of 2015 of ₱117,289. Corollary to rental income, a 3.5% commission is given to agents who were able to close a leasing agreement. With this incentive, the company is expecting rental income to go on an upswing move for the next few months.
5. Utilities expense for the second quarter of 2016 decreased by 4%. Taxes and licenses paid for the current quarter leveled with amount record for second quarter of 2015.

Some cost reduction measures were implemented which somehow soften the impact of the increases enumerated above.

## **Performance Indicators**

In order to cut losses on its non-operating subsidiary, the Parent Company sold its full interest on Philfoods Asia, Inc. to Chesa Holdings, Inc. last February 9, 2016 at ₱5 per share. Parent Company incurred loss amounting to ₱6.2 million.

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

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 2nd quarter of 2016, the company has an average of ₱238,925 rental income per tenant or an increase of ₱28,419 rental income per tenant or 13.19% as compared to 2nd quarter of 2015. 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 ration done thru the aging of receivables. For the second quarter of 2016, ratio of past due receivables to total outstanding was 7.84%. Since most of the contracts are short term (three to six months), past due ratio of receivables are maintained at least below 10% by the management.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. Second quarter of 2016 has a gross profit margin of 53.18% compared to 50.73% for the second quarter of 2015.
4. Working Capital - to meet the obligations of the company, it is measured by determining current assets over current obligations. Working capital ratio for second quarter of 2016 was 482.63% as compared to 286.09% on the second quarter of 2015. Increase is attributable to increase in receivables and decrease in current liabilities. This receivable pertains to receivable from venturer, Philippine Estates Corp., for the Group's share in the proceeds of the lot sold in 2015 (still outstanding as of June 30, 2016). Decrease in current liabilities pertain to liabilities of subsidiary (Philfoods) which are no longer included in the consolidation after the Parent Company sold it to related party.
5. Advances by the Affiliates - this is to determine, how much the obligations of the company of which are, the affiliated companies are the responsible in paying those liabilities. For the second quarter of 2016, the company has total advances from affiliates amounting to ₱508.8 million and a total settlement of its advances to affiliates of ₱5.1 million.

*Further discussion of accounts of which registered an increased or decreased by 5% or more follows:*

Accounts Receivable. Trade receivables include rental receivables amounting to ₱3,496,332 and ₱2,704,942 for the quarters ended June 30, 2016 and 2015 or an increase of ₱791,390 or 29.26%. This is due to the buildings and warehouses that were being leased out again pending the memorandum of agreement between ALC and the Group for the development of the Plastic City compound. Rental receivables are collectible monthly based on terms of the contract. Some rental rates of other tenants were increased also to cover fixed and overhead expenses.

Other receivables include advances to employees and reimbursable utilities expenses from PCIC subsidiaries tenants. The credit quality and aging of trade and other receivables are fully disclosed in Annex A.5 under Note 25 of Notes to Consolidated Financial Statements.

Installment contract receivable. This account pertains to receivable from Avida Land Corp. (ALC) in connection with the Contract to Sell (CTS) entered by Pacific Plastic Corp. (PPC), a PCIC subsidiary, and ALC last December 17, 2012, for the sale of 25,203 sqm of land located in Valenzuela City. The land is covered by the MOA with ALC and was classified as investment property with a carrying value of ₱75,609,000 which is equal to its fair value at the time of sale as determined by the recent appraisal (see Annex A.5 under Note 7 and 22 of Notes to Consolidated Financial Statements for full disclosure).

The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) payable in 10% down payment, which was received in 2012, and the balance payable in three (3) equal installments from 2013 to 2015. PPC recognized loss on sale amounting to ₱18,747,000 in 2012. As at June 30, 2016 and 2015, current portion of installment contract receivable amounted to ₱57,316,896. As at June 30, 2016, properties covered by MOA has not been transferred to ALC pending the resolution of corporate rehabilitation filed by the Group. Accordingly, no payment has been made by ALC on the second installment.

Prepaid expense and other current assets. This account increased by ₱3.1 million or 35.67% due to recognition of creditable withholding taxes and input VAT incurred for the quarter.

The carrying amounts of the creditable withholding tax and input taxes are reduced to the extent that they are no longer probable that sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

As at June 30, 2016 and 2015, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

Advances to Related Parties. An increased by ₱23.8 million or 19.29% was due to additional advances to related parties from the proceeds of sold lot of a subsidiary. 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. Transactions within the quarter arise from paying operating expenses on behalf of related parties.

Property, plant and equipment. These are consists mainly of land, buildings and various equipment of PCIC subsidiaries and Phil foods used for the manufacturing of plastic products and food processing.

The Group's machinery and equipment were revalued on April 8, 2009 by an independent firm of appraisers. The valuation was determined by reference to market transactions on arm's length terms using cost and market data or direct sales comparison approach. The revaluation of machinery and equipment resulted to recovery of previously recognized impairment loss of ₱33,659,547 in 2009.

In 2013, the management assessed that the fair value of machineries and equipment to be lower than its cost based on physical condition, economic performance of the assets when put into use and current market value based on recoverable amount or offered sales prices to interested buyers. Decline in the cost of machineries and equipment amounted ₱63,790,634.

A revaluation was made again on December 9, 2015 by an independent firm of appraisers. This is management's preparation to revalue its properties based on the court's order to undergo the three subsidiaries involved on the corporate rehabilitation case under liquidation process. A reversal of previously recognized impairment loss was made as of December 31, 2015 amounting to ₱454 million. Decrease in the value of property, plant and equipment for the second quarter of 2016 as compared to the quarter ended June 30, 2015 was due to depreciation charge for the second quarter amounting to ₱3.6 million and those property, plant and equipment of subsidiaries that are no longer included in the consolidation due to sale to related party.

Accounts Payable. This account consists of trade payable to various suppliers of PCIC subsidiaries, VAT payable and other taxes payable, deferred rental and other payables. Amount recorded as of June 30, 2016 and 2015 were ₱18.9M and ₱25.3M, respectively. Decrease is mainly due to payment of other liabilities during the quarter and liabilities of subsidiaries that are no longer included in the consolidation due to sale to related party.

The carrying amounts of accrued expenses and other current liabilities, which are expected to be settled within the next twelve months from reporting period, is a reasonable approximation of its fair value.

Advances from Affiliates and Stockholders Account. A total amount of ₱508.8M were recorded for the second quarter of 2016 as compared to ₱516.6M for the second quarter of 2015, or a decrease of ₱7.8M or 1.51% due to settlement of advances from affiliates during the quarter.



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 possibility of offsetting arrangements to settle the obligations.

The Group obtains non-interest bearing advances from stockholders and key officers for working capital purposes. These advances have no guarantee and definite terms of repayment period. Payment will depend on the availability of funds. This amount are payable in cash upon settlement.

*Advances from lessee.* Amount recorded for the quarters ended June 30, 2016 and 2015 is ₱2.1M and ₱1.6M, respectively or an increase of ₱0.5M or 31.25% due to renewal of other lease contracts for buildings and warehouses that were being leased out again pending the memorandum of agreement with ALC for the development of the Plastic City compound. Some tenants made advance payment for the contract signed to reserve for the opportunity to lease the areas again after their contract expired.

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.

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

### **Philfoods Incorporated**

Philfoods started commercial operation in 2000, suspended it in 2002. Management is looking for possible partners to operate its facilities. The equity method of accounting for this investment was discontinued, its losses having exceeded the cost of investment. In 2003, Philfoods also reviewed the recoverability of its property, plant and equipment and recognized in its statement of operations, an impairment loss amounting to ₱13.9M; which was included in the consolidated accumulated impairment loss of ₱136.5M.

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

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

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

On October 28, 2010, PCIC subsidiaries (namely ICC, PPC and KCC) with certain affiliates jointly filed a petition for corporate rehabilitation in order to revive its manufacturing operations. Details of the rehabilitation were fully disclosed in Annex A.5 under Note 1 of the Notes to Consolidated Financial Statements.

On February 10, 2016, PCIC sold its whole interest or 124,995 shares on Weltex Industrial Corp. to Chesa Holdings, Inc. at ₱50 per share for a total purchase price of ₱6,249,750. The Parent Company incurred loss on the sale of this investment amounting to ₱6,249,750. On the same date, PCIC sold also its 24,995 shares in MPC Plastic Corp. to Chesa Holdings, Inc. at par value for a total purchase price of ₱2,499,500. No loss or gain was realized on the sale of said investment.

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

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

(Please see the notes in Annex A.5 for the Notes to Consolidated Financial Statements.)

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

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

**(iv) Commitment For Capital Expenditures**

Since the Plastic City Industrial Corporation and Philfoods Asia Incorporated CEASED in commercial operation there are no commitments on major capital expenditures.

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

Since the Plastic City Industrial Corporation and Philfoods Incorporated CEASED in commercial operation and is disposed to lease out its warehouse facilities.

Rental Income recorded for the second quarter of 2016 compared to 2015 was increased by 11.76% due to increase in rental rates to cover fixed expenses for terminated lease contracts. As of June 30, 2016 there are seven (7) lessees occupying sixteen (16) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to eight (8) lessees, occupying 16 areas for 2015. 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 second quarter of 2016 is 482.63% with recorded current assets of ₱91.4M over ₱18.9M current liabilities. The Group's policy to address liquidity risk is to maintain a balance continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees' premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

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

Philfoods Asia, Inc., ceased its commercial operations in 2002 while PCIC and subsidiaries ceased manufacturing operations in 2002 and prior years and leased out their warehouse/ building facilities. The intention of the Company is to continue its operation by focusing on activities such as "injection molding due to their very encouraging prospects and which have shown to have a high viability rating that will contribute highly towards the Company's maximum operation and financial position.

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

The results of operations for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Rental Income	₱ 15,238,093	₱ 14,103,963
Direct Cost and Expenses	7,457,120	6,535,842
Gross Profit	<u>7,780,973</u>	<u>7,568,121</u>
Operating Expenses	25,687,589	24,529,954
Income from Operations	<u>(17,906,616)</u>	<u>(16,961,833)</u>
Other Income (expenses)	454,304,693	545,665
	<u>436,398,077</u>	<u>(16,416,168)</u>
Finance Cost	( 590,829)	( 3,671)
Income (Loss) Before Tax	<u>435,807,248</u>	<u>(16,419,839)</u>
Income Tax Expense		
Current	( 187,439)	( 162,156)
Deferred	( 56,259)	-
Net Loss for the Year	<u>453,563,550</u>	<u>(16,581,995)</u>

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

Here as some analyses:

<b><u>Income Statement:</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>Difference</u></b>	<b><u>%</u></b>
<i>Rental Income</i>	₱15,238,093	₱14,103,963	₱1,134,130	8.04%
- As of December 31, 2015 there are 10 companies occupying 17 warehouses, shipyards and open spaces within the Plastic City compound. The increase was due to buildings and warehouses that were leased out again pending the execution of the memorandum of agreement between the Group and ALC for the real estate conversion from industrial to commercial and residential. Though with lower number of buildings and open spaces being leased out, rental rates where increase to cover fixed and overhead expenses.				
<i>Direct Cost and Expenses</i>	₱7,457,120	₱6,535,842	₱921,278	14.09%
- Repairs & maintenance, security services, property taxes, insurance and depreciation are the major accounts. Increase was due to repairs made and maintenance cost during the year (₱298,996), higher property taxes paid for the current year (increased by ₱285,983) and increase in security service cost (increased by ₱343,254).				
<i>Operating Expenses</i>	₱25,687,589	₱24,529,954	₱1,157,635	4.72%
- Significant decrease is due to the decrease in depreciation on the buildings that were demolished last year in preparation supposed to be for the commencement of the execution of the memorandum of agreement with ALC.				
<i>Other Income (Loss)</i>	₱454,304,693	₱545,665	₱453,759,028	83157%
- Other income (loss) for 2015 is composed of bank charges (₱1,200), interest income from bank deposits (₱8,805), loss on impairment on investment properties (₱29,087,993), loss on impairment of property, plant and equipment (₱17,893,083), miscellaneous income from scrap sales and conversion of wrote off long outstanding payables into income (₱4,403,623), reversal of previously recognized impairment loss on investment properties and joint operation based on latest appraisal made by independent firm of appraisers (₱337,293,585 and ₱159,583,955, respectively). Other income for 2014 includes miscellaneous income from scrap sales (₱539,668, interest income from bank deposits (₱7,359) and bank charges (₱1,362). Due to pending legal case of the Group on its filed petition for corporate rehabilitation and with the lower court's decision to convert the three (3) subsidiaries involved to undergo into liquidation process, the management planned to assess value of its assets by hiring independent firm of appraisers last December 9, 2015. This appraisal resulted to significant recognition of income by reversing previously recognized impairment loss on investment properties and joint operation.				

## **Balance Sheet:**

Advances to Affiliates      ₱119,733,275      ₱123,502,292      ₱3,769,017      3.05%

- A non-bearing interest cash advances extended by the Affiliate to the company for their *working capital requirements*. 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. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

Receivables (Trade and other receivables and Installment contract receivables)

₱71,979,885      ₱59,821,145      ₱12,158,740      20.33%

- Includes rental receivables which are collectible monthly based on terms of contract. Increase in trade receivables amounting to ₱1,134,130 was due to increase in credit sales. Other receivables include advances to employees and reimbursable utilities expenses from PCIC subsidiaries tenants which also increase by ₱11,024,610 for the current year. The credit quality and aging of trade and other receivables are fully disclosed in Annex A.5 under Note 26 of Notes to Consolidated Financial Statements.

Investment Properties      ₱1,003,957,213      ₱698,814,029      ₱305,143,184      43.67%

- Increase is due to net effect of depreciation recognized for the year amounting to ₱3,062,409 which was charged to direct cost, loss on impairment amounting to ₱29,087,993.67 and reversal of impairment loss amounting to ₱337,293,585. On December 9, 2015, independent appraisers assessed that the aggregate fair value of Group's investment properties (which includes land, land improvements and buildings and improvements) was above its costs, and recovery of previously recognized impairment loss of ₱337,293,585 was recognized for the year 2015. The fair value is determined using the combination of cost and market approach.

Property Plant & Equipment

₱45,710,450      ₱77,047,132      (₱31,336,682)      40.67%

- Decrease is due to provision for depreciation expense for the year amounting to ₱13,489,315 and loss on impairment on machineries and equipment amounting to ₱17,847,367.

Advances from Affiliates & Stockholders

₱513,853,538      ₱517,332,030      (₱3,478,492)      0.67%

- 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 possibility of offsetting arrangements to settle the obligations.

- The Group obtains non-interest bearing advances from stockholders and key officers for working capital purposes. These advances have no guarantee and definite terms of repayment period. Payment will depend on the availability of funds. This amount are payable in cash upon settlement.

-Decrease for the year ended December 31, 2015 pertains to transaction with related parties for the settlement of the Groups obligations such as bank loans and current liabilities.

Current Ratio: Current Assets / Current Liabilities = 325.80%

***Material changes on line items in financial statements are presented under the captions 'Changes in Financial Condition' and 'Changes in Operating Results'***

***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.

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

a) Credit risk

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

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position (with trade and other receivables and advances to related parties presented gross of allowance for doubtful accounts). Please refer to Annex A.5 under Note 26 of the Notes to Consolidated Financial Statements for the breakdown of financial assets.

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. As at June 30, 2016 and 2015 the Group classifies all its trade receivable as past due and impaired. 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.

*Advances to related parties*

As at June 30, 2016 and 2015, the Group classifies advances to related parties as past due but not impaired with certain portion determined to be past due and impaired.

The Company does not hold any collateral as security on the receivables.

The management continues to review advances to related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower to settle on a net basis. Certain subsidiaries filed a corporate rehabilitation as plan to revive its operation for the benefit of stockholder and affiliates. (Please refer to Annex A.5 under Notes 25 of the Notes to Consolidated Financial Statements for the aging and quality of financial assets).

Certain trade and other receivables and advances to related parties were assessed to be impaired and allowance for doubtful accounts amounting to ₱56,413,260 as at June 30, 2016 and 2015, respectively, has been provided (see Notes 5 and 18).

The individually impaired receivables mainly relates to customers and affiliates which are in difficult economic situations or have ceased commercial operations.

b) Liquidity risk

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

Please refer to Annex A.5 under Note 26 for the details the Group's remaining contractual maturity for its financial liabilities (with accounts payable and other liabilities excluding value added tax and other taxes payable). The table 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.

Substantial portion of the Group's financial liabilities consist of advances from related parties. The Group does not expect to pay its liabilities to related parties within twelve (12) months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

As at December 31, 2011, payment of borrowings was suspended as it is subject to restructuring (see Note 10). Terms and interest rate is renegotiated with the lender bank including possible waiver of portion of interest and penalties. The loan was secured by real properties of Group.

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

*PFRS 9 Financial instruments*, effective January 1, 2015, addresses the classification, measurement and recognition of financial assets and financial liabilities. PFRS 9 was issued in November 2009 and October 2010. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. **The adoption of PFRS 9 is expected to have no significant impact on the Group's consolidated financial statements as most of the Parent Company's financial instruments are not complex. The Group will quantify the effect in conjunction with other phases, when issued, to present a comprehensive picture.**

## PART II – OTHER INFORMATION

### **(1) Market Information**

a) 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>	
		<u>High</u>	<u>Low</u>
2016			
	First Quarter	0.205	0.200
	Second Quarter	0.205	0.198
2015			
	First Quarter	0.243	0.235
	Second Quarter	0.200	0.190
	Third Quarter	0.196	0.224
	Fourth Quarter	0.275	0.195
2014			
	First Quarter	0.193	0.260
	Second Quarter	0.188	0.235
	Third Quarter	0.196	0.224
	Fourth Quarter	0.275	0.195
2013			
	First Quarter	0.270	0.260
	Second Quarter	0.240	0.235
	Third Quarter	0.224	0.224
	Fourth Quarter	0.195	0.195

The price information as of June 30, 2016 (latest practical trading date) was closed at ₱0.203 for Class A, the only security traded by the Company, and there are 1,014 stockholders.

**(2) Holders**

The numbers of shareholders of record as of June 30, 2016 were 1,014. Common shares issued and subscribed as of June 30, 2016 were 3,276,045,637.

**WELLEX INDUSTRIES INCORPORATED AND  
SUBSIDIARIES  
List of Top 20 Stockholders of Record  
June 30, 2016**

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	PERCENTAGE TO TOTAL OUTSTANDING
PCD NOMINEE CORP.	FILIPINO	896,540,923	27.401
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
PCD NOMINEE CORPORATION (NON-FILIPINO)	OTHERS	58,197,000	1.779
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
ORIENT PACIFIC CORPORATION	FILIPINO	36,340,000	1.111
LI CHIH-HUI	FILIPINO	13,500,000	0.413
WELLEX GLOBAL EQUITIES, INC.	FILIPINO	4,050,000	0.124
INTERNATIONAL POLYMER CORP.	FILIPINO	2,700,000	0.083
CANDICE CHOA COCUACO	FILIPINO	850,000	0.026
RODOLFO S. ETRELLADO	FILIPINO	750,000	0.023
PROBITY SEC. MGT. CORP.	FILIPINO	463,200	0.014
RICHARD L. RICARDO	FILIPINO	460,000	0.014
REGINA CAPITAL DEVELOPMENT	FILIPINO	300,000	0.009



SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasig City on AUG 03 2016

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: \_\_\_\_\_ 7/38/2016

Registrant: **RICHARD L. RICARDO**  
Title: **Treasurer**

Signature: \_\_\_\_\_

Dated AUG 03 2016

04 AUG 2016

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2016 in QUEZON CITY affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS	TAX IDENTIFICATION NO.
1. Kenneth T. Gatchalian	167-406-526-000
2. Atty. Mariel L. Francisco	224-150-060-000
3. Richard L. Ricardo	140-857-860-000

Doc. No.: 49  
Page No.: \_\_\_\_\_  
Book No.: hex  
Series of: nlcy

*(Signature)*  
ATTY. BENJAMIN F. ALONSO  
NOTARIAL PUBLIC  
UNTIL DECEMBER 31, 2016  
PTR NO. 2347797 1/4/2016 QUEZON  
IBP NO. 1015954 1/4/2016 QUEZON  
ROLL NO. 13296  
COMMISSION NO. NP-144 (2015-2016) QUEZON  
TIN NO. 177-967-0000  
MCLE EXEMPT

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

“ANNEX A.1”

	Unaudited June 30 2016	Unaudited June 30 2015	Audited December 31 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash - note 4	₱ 5,456,057	₱ 3,523,931	₱ 4,494,479
Trade and other receivables (net) – note 5	16,859,126	2,718,776	14,662,989
Prepaid taxes – note 6	11,786,314	8,687,683	9,288,075
Installment contract receivable – note 21	57,316,896	57,316,896	57,316,896
	91,418,393	72,247,286	85,762,439
<b>Noncurrent Assets</b>			
Investment properties (net) – note 7	983,429,919	697,281,235	1,003,957,213
Investments in a joint operation (net) – note 8	542,573,111	393,183,157	542,573,111
Property and equipment (net) – note 9	34,601,361	69,954,367	45,710,450
Advances to related parties – note 18	147,105,632	123,321,030	119,733,275
Other assets	180,844	180,844	180,844
	1,707,890,867	1,283,920,633	1,712,154,983
<b>TOTAL ASSETS</b>	<b>₱1,799,309,260</b>	<b>₱1,356,167,919</b>	<b>₱1,797,917,332</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities- note 11	₱16,889,208	₱ 23,672,671	₱ 23,858,246
Advances from lessees – note 20	2,052,410	1,580,871	2,250,650
Borrowings (net of noncurrent portion) – note 10	–	–	159,438
Income Tax Payable	–	–	55,187
	18,941,618	25,253,542	26,323,521
<b>Noncurrent Liabilities</b>			
Borrowings – note 10	241,179	393,446	159,628
Advances from related parties – note 18	508,799,618	516,563,696	513,853,538
Retirement benefits obligation – note 16	542,100	500,400	542,100
	509,582,896	517,457,542	514,555,266
<b>TOTAL LIABILITIES</b>	<b>528,524,515</b>	<b>542,711,084</b>	<b>540,878,787</b>
<b>Equity</b>			
Capital stock – note 12	3,276,045,637	3,276,045,637	3,276,045,637
Additional paid-in capital	24,492,801	24,492,801	24,492,801
Deficit	(2,029,743,693)	(2,487,071,603)	(2,043,489,893)
	1,270,794,745	813,466,835	1,257,048,545
Treasury stock	(10,000)	(10,000)	( 10,000)
	1,270,784,745	813,456,835	1,257,038,545
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,799,309,260</b>	<b>₱1,356,167,919</b>	<b>₱1,797,917,332</b>

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**For the period covered ending June 30, 2016 and 2015**

**“ANNEX A.2”**

	<b>April – June 2016</b>	April - June 2015	Jan – June 2016	Jan – June 2015
<b>RENTAL INCOME</b> - notes 7 and 20	<b>₱3,822,795</b>	₱3,368,091	<b>₱7,689,283</b>	₱ 7,138,525
<b>DIRECT COSTS AND EXPENSES</b> - note 13	<b>1,789,698</b>	1,659,472	<b>3,523,682</b>	3,338,558
<b>GROSS PROFIT</b>	<b>2,033,097</b>	1,708,619	<b>4,165,601</b>	3,799,967
<b>OPERATING EXPENSES</b> - note 14	<b>6,393,963</b>	6,463,120	<b>12,695,548</b>	11,497,680
<b>(LOSS) INCOME FROM OPERATIONS</b>	<b>(4,360,866)</b>	(4,774,410)	<b>(8,529,947)</b>	(7,697,713)
<b>OTHER INCOME (CHARGES)</b> (net) – note 15	<b>30,318,023</b>	(19,909)	<b>17,811,939</b>	(19,737)
<b>INCOME (LOSS) BEFORE TAX</b>	<b>25,957,157</b>	(4,794,319)	<b>9,281,992</b>	(7,717,450)
<b>INCOME TAX EXPENSE</b> – notes 17	<b>(323,955)</b>	(300,710)	<b>(323,955)</b>	(300,710)
<b>NET INCOME (LOSS)</b>	<b>₱25,633,202</b>	(₱5,075,120)	<b>₱8,958,037</b>	(₱8,018,160)
<b>Loss per share</b> - note 22	<b>₱0.0078</b>	(₱0.0015)	<b>₱0.0027</b>	(₱ 0.0024)

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the period covered ending June 30, 2016 and 2015**

	Unaudited June 30 2016	Unaudited June 30 2015	Audited December 31 2015
<b>CAPITAL STOCK</b>	₱3,276,045,637	₱3,276,045,637	₱3,276,045,637
<b>ADDITIONAL PAID IN CAPITAL</b>	24,492,801	24,492,801	24,492,801
<b>DEFICIT</b>			
Balance - beginning of the period	(2,038,701,730)	(2,479,053,443)	(2,479,053,443)
Net loss for the period	8,958,037	( 8,018,160)	435,563,550
Balance - end of the period	(2,029,743,693)	(2,487,071,603)	(2,043,489,893)
<b>TREASURY STOCK</b>	( 10,000)	( 10,000)	( 10,000)
<b>TOTAL EQUITY</b>	<b>₱1,270,784,745</b>	<b>₱ 813,456,835</b>	<b>₱1,257,038,545</b>

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

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

“ANNEX A.4”

	June 30 2016	June 30 2015	Audited December 31, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax from continued and discontinued operations	₱25,957,157	(₱7,717,450)	₱435,807,248
Adjustments for:			
Depreciation – notes 7 and 9	8,562,800	8,625,559	16,526,326
Impairment loss on:			
Property and equipment	–	–	17,893,083
Investment properties	–	–	29,087,993
Loss on disposal of interest in joint operation and investment	–	–	(65,907)
Reversal of allowance for impairment loss on:			
Investment properties	–	–	(337,293,586)
Investment in joint venture	–	–	(159,583,955)
Finance costs – note 10	13,271	20,130	37,062
Provision for retirement benefits	–	–	41,700
Interest income – note 4	5,575	(393)	(3,907)
Provision for income tax	323,955	300,710	–
Operating income (loss) before working capital changes	8,905,601	1,228,556	2,446,057
Decrease (increase) in:			
Trade and other receivables	(2,196,137)	(214,527)	(12,158,740)
Prepaid taxes	(2,498,239)	(238,702)	(839,094)
Increase (decrease) in:			
Accounts payable and other current liabilities	(6,969,038)	1,028,251	1,213,826
Advances from lessees	(198,240)	(319,710)	350,069
Net cash from (used in) operations	(2,956,053)	1,483,868	(8,987,882)
Interest received	–	393	3,907
Income tax paid	–	(300,710)	(188,511)
Net cash from (used in) operating activities		1,183,551	(9,172,486)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additional advances from related parties	9,117,896	181,262	3,769,017
Proceeds from sale of interest in joint operation	–	–	10,259,908
Additions to property and equipment – note 9 and 24	–	–	(20,318)
Net cash generated from investing activities	9,117,896	181,262	14,008,607
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of advances	(5,053,920)	(768,334)	(3,748,492)
Payment of borrowings	(133,074)	(371,742)	( 145,412)
Finance cost paid	(13,271)	(20,130)	( 37,062)
Net cash from (used in) financing activities	(5,200,265)	(1,160,206)	(3,660,966)
<b>NET INCREASE (DECREASE) IN CASH</b>	961,578	204,607	1,175,155
<b>CASH - notes 2 and 5</b>			
At beginning of the period	4,494,479	3,319,324	3,319,324
At end of the period	₱ 5,456,057	₱ 3,523,931	₱ 4,494,479

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Notes to Financial Statements**  
 June 30, 2016

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

**Corporate Information**

**Wellex Industries, Incorporated** (the “Parent Company”) was incorporated in the Philippines on October 19, 1956 primarily to engage in the business of mining and exploration and was formerly known as Republic Resources and Development Corporation (REDECO). The Company’s change in name was approved by the Securities and Exchange Commission (SEC) on September 18, 1997.

On February 11, 1995, the SEC approved the Parent Company’s amendment in its Articles of Incorporation. The Parent Company changed its primary purpose from mining activities to development operation of all types of business enterprises, including by not limited to enterprises engaged in the business of real estate development. Mining, however, continues to be one the Company’s secondary purposes.

The Parent Company’s corporate life officially ended on October 19, 2006. On January 19, 2006, the Company’s Board of Directors (BOD) and stockholders approved the amendment of the Company’s Articles of Incorporation extending the corporate life for another 50 years up to October 19, 2056. The Parent Company’s Amended Articles of Incorporation was approved by the SEC on July 20, 2007.

On November 20, 2008, the BOD and stockholders approved the amendment on its Articles of Incorporation amending the Parent Company’s changed in its primary purpose. The Parent Company’s primary purpose was changed to employment of capital for the purpose of assisting mining enterprises. The Parent Company’s secondary purpose, however, remains for operation of all types of business enterprises, such as property holding and development, management, manufacturing, investments and other business. The amendment was approved by the SEC on April 3, 2009.

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

The Parent Company is currently has one subsidiary, Plastic City Industrial Corporation (PCIC) (collectively referred to herein as the “Group”). The Parent Company ceased to have control over its previous subsidiary, Philfoods Asia, Inc., after it sold its full interest on the said company last February 10, 2016.

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

**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 continues to incur losses which resulted to a deficit of ₱2,029,743,693, ₱2,487,071,603 and ₱2,043,489,893 as at June 30, 2016, June 30, 2015 and December 31, 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 Group's investment properties were used as collateral to secure loans obtained by the Group and its related parties, 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 (the "Court") by authority of Section 1, Rule 4 of Rules and Procedures on Corporate Rehabilitation, in order to revive the Petitioners manufacturing operations and bring them back to profitability for the benefit of the creditors, employees and stockholders.

The Plan will be implemented over a span of five (5) years, with the 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 court 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 Company 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 Company and other related parties with Avida Land Corp. (ALC) on the same date, for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, 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 Court to order the parties to negotiate and explore realistic and mutually acceptable rehabilitation plan.

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

On January 15, 2014, a conference prior to the resolution of the case was held among the Petitioners, PNB, BDO and the rehabilitation receiver. One of the topics covered, among others, is

the presentation of Revised Rehabilitation Proposal letter by Novateknika Land Corp. (NLC) (borrower of PNB of which the properties by Petitioners were used to secure the loan of NLC) to PNB dated December 6, 2013.

The terms of the proposal, among others are the following:

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

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

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

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

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

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

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

On December 15, 2014, the Petitioners filed a Petition for Review with the Court of Appeals (CA) assailing the RTC's decision on October 20, 2014. The petition was based on the grounds that the Petitioners were never given a chance to establish the maximum extent by which their rehabilitation plan may be improved and the RTC committed reversible error in converting the rehabilitation proceeding into a liquidation proceeding as the rehabilitation of the Petitioners is still feasible.

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

On January 22, 2016, a Motion for Reconsideration was filed with the CA by the Petitioners praying that its decision be reversed and set aside.

On July 4, 2016, CA issued its resolution denying the Motion for Reconsideration filed by the Petitioner stating that it finds no valid reason to disturb its Decision dated December 18, 2015 and has already addressed in full the same arguments petitioners raise anew.



Management plan is to elevate the case to the Supreme Court. Thus, on July 27, 2016, through its legal counsel, Petitioner filed a Motion for Additional Time to File Petition for Review to Supreme Court. The Petitioner requested an additional period of fifteen (15) days from July 27, 2016, or until August 11, 2016, within which to file the Petition to adequately prepare and present good arguments for the reversal of the subject decision and resolution of the Court of Appeals.

As of the date of this report, the counsel is still finalizing and preparing the motion. Further, the Management is conducting continuous discussion with PNB to resolve the issues and they believe that they are very close to have extrajudicial settlement of the loan. 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.

The consolidated financial statements have been prepared on a historical cost basis, except as 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, 2015.

*PFRS 10 Consolidated Financial Statements, PFRS 12 Disclosure of Interest in Other Entities and PAS 27 Separate Financial Statements – Investment Entities (Amendments)*. The amendments to PFRS 10 define an investment entity and sets out an exception for a parent company that is an investment entity to consolidate its subsidiaries. Instead, the standard requires to measure the investment in its subsidiaries at fair value through profit or loss in accordance with PFRS 9, Financial Instruments (If PFRS 9 is not yet adopted, references to PFRS 9 in the amendments shall be read as references to PAS 39, Financial Instruments: Recognition and Measurement) in its consolidated and separate financial statements (PAS 27). The exception does not apply to

subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. These amendments also introduce new disclosure requirements for investment entities in PFRS 12 and PAS 27. These amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments have no impact on the Group's consolidated financial statements since the Group is not an investment entity.

*PAS 32 (Amendment), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.* These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearinghouse systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments did not have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

*PAS 36 (Amendment), Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets.* This amendments clarify that the requirement for the disclosure of the recoverable amount of an asset or cash-generating units is only required in the periods in which the impairment has been recorded or reversed. Amendments are also made to expand and clarify the disclosure requirements when the recoverable amount has been determined on the basis of fair value less costs of disposal and to introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendment has no impact on the Group's consolidated financial statements since the Group has determined that the Group's tangible assets are recoverable.

*PAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting,* effective January 1, 2014, These amendments allow hedge accounting to continue when derivatives are novated, provided the following criteria are met: (a) the novation is required by laws or regulations; (b) the novation results in a central counterparty becoming the new counterparty to each of the parties to the novated derivative; and (c) the changes in terms of the novated derivative are limited to those necessary to effect the terms of the novated derivative. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments has no impact on the Group's consolidated financial statement as it does not expect any impending novation of its derivatives designated as hedging instruments in existing hedge relationships.

*IFRIC Interpretation 21, Levies.* This interpretation addresses the accounting for a liability to pay a levy that is accounted for in accordance with PAS 37 Provisions, Contingent Liabilities and Contingent Assets and those whose timing and amount is certain. This interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The liability to pay a levy is recognized progressively when the obligating event occurs over a period of time. If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is reached. The amendments are effective for annual periods beginning on or after January 1, 2016.

The interpretation has no impact on the Group's consolidated financial statements since the Group is not subject to levy as at the end of the reporting period.

## **New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2014**

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

### *Annual Improvements to PFRS 2010 – 2012 Cycle*

The annual improvements address the following issues:

*PFRS 2 (Amendment), Share-based Payment – Definition of vesting condition*, focuses on the amendment of the definitions of 'vesting condition' and 'market condition' and added definitions for 'performance condition' and 'service condition' which are previously included in the definition of vesting conditions.

The amendment will not have an impact on the Group's consolidated financial statements as the Group has no share-based payment plan.

*PFRS 3 (Amendment), Business Combinations – Accounting for contingent consideration in a business combination*, clarifies that contingent consideration that is not classified as equity shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss, irrespective of whether it is within the scope of PFRS 9, Financial Instruments (If PFRS 9 is not yet adopted, references to PFRS 9 in the amendments shall be read as references to PAS 39, Financial Instruments: Recognition and Measurement).

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PFRS 8 (Amendment), Operating Segments – Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets*, requires disclosure of judgments made by management in applying the aggregation criteria to operating segments which includes (a) a brief description of the operating segments that have been aggregated and (b) the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. These amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly to the chief operating decision maker.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

### *PFRS 13 (Amendment), Fair Value Measurement – Short-term receivables and payables*

This amendment states that issuing PFRS 13 and amending PFRS 9, Financial Instruments and PAS 39, Financial Instruments: Recognition and Measurement did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PAS 16 (Amendment), Property, Plant and Equipment – Revaluation method: proportionate restatement of accumulated depreciation*, clarifies that when an item of property, plant and equipment is revalued, the carrying amount of asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses, or (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PAS 24(Amendment), Related Party Disclosures – Key management personnel*, clarifies that a management entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PAS 38 (Amendment), Intangible Assets – Revaluation method: Proportionate restatement of accumulated amortization*. This amendments clarifies that when an intangible asset is revalued, the carrying amount of asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses, or (b) the accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendment will not have an impact on the Group's consolidated financial statement as the Group has no intangible assets.

#### *Annual Improvements to PFRSs 2011 – 2013 Cycle*

The annual improvements address the following issues:

*PFRS 1 (Amendments to the Basis for Conclusions), First-time Adoption of Phillipine Financial Reporting Standards – Meaning of effective PFRSs*. The amendments state that a first-time adopter is permitted to use either the PFRS that is currently mandatory or the new PFRS that is not yet mandatory, provided that the new PFRS permits early application. If a first-time adopter chooses to early apply a new PFRS, that new PFRS will be applied throughout all the periods presented in its first PFRS financial statements on a retrospective basis, unless PFRS 1 requires otherwise.

The amendment will not have an impact on the Group's consolidated financial statement as the Group is not a first-time adopted of PFRS 1.

*PFRS 3 (Amendments), Business Combinations – Scope exceptions for joint ventures*. This amendments clarify that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PFRS 13 (Amendment), Fair Value Measurement – Portfolio exception*, clarifies that the scope of the portfolio exception defined in paragraph 52 of PFRS 13 applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 Financial Instruments: Recognition and Measurement or PFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32 Financial Instruments: Presentation.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PAS 40 (Amendment), Investment Property*. These amendments clarify the interrelationship between PAS 40 and PFRS 3 Business Combinations . The amendment states that judgement is needed in determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. Determining whether a specific transaction meets the definition of a business combination and includes an investment property requires the separate application of both PFRS 3 and PAS 40.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

*PAS 19 (Amendments) Employee Benefits – Defined Benefit Plans: Employee Contributions*. The amendments clarify the requirements that relate to how contributions from employees or third

parties that are linked to service should be attributed to periods of service. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:(a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service, i.e. either using the plan's contribution formula or on a straight-line basis; or (b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments are effective for annual periods beginning on or after July 1, 2016.

The amendments will not have impact on the Group's consolidated financial statements as the Group does not have contributions from employees or third parties that are linked to an employee period of service.

PFRS 11, *Joint Arrangement — Accounting for Acquisitions of Interests in Joint Operations (Amendments)*. The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3 to: (1) apply all of the business combinations accounting principles in PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11; and, (2) disclose the information required by PFRS 3 and other PFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in PFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply.

Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted. The amendments are effective for annual periods beginning on or after January 1, 2016.

The management is still evaluating the impact of the above improvements on the Group's consolidated financial statements.

PFRS 14, *Regulatory Deferral Accounts*. This new standard permits an entity which is a first-time adopter of Philippine Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of PFRS and in subsequent financial statements. Entities which are eligible to apply this standard are not required to do so, and so can chose to apply only the requirements of PFRS 1 when first applying PFRSs. However, an entity that elects to apply this standard in its first PFRS financial statements must continue to apply it in subsequent financial statements. This standard cannot be applied by entities that have already adopted PFRSs. The standard is effective and applicable on first annual financial statements for annual periods beginning on or after January 1, 2016.

The standard will not have an impact on the Group's consolidated financial statements since the Group is no longer a first-time adopter of PFRS on its mandatory effective date. Hence, this standard is no longer applicable to the Group.

PAS 16, *Property, Plant and Equipment — Clarification of Acceptable Methods of Depreciation (Amended)*. These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments will not have impact on the Group's consolidated financial statements as the Group depreciation methods are not based on revenue.

PFRS 9, *Financial Instruments*. 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 Group's consolidated financial statements as the Group financial assets and financial liabilities will continue to be measured at amortized cost.

### **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.

<b>Subsidiaries</b>	<b>Principal Activity</b>	<b>Ownership</b>	
		<b>Jun 30 2016</b>	<b>Jun 30 2015</b>
<b>Direct Ownership</b>			
Philfoods Asia, Incorporated (Philfoods)	Manufacturing	<b>0%</b>	100%
Plastic City Industrial Corporation (PCIC)	Manufacturing	<b>100%</b>	100%
<b>Indirect Ownership (Subsidiaries of PCIC)</b>			
Inland Container Corporation (ICC)	Manufacturing	<b>100%</b>	100%
Kennex Container Corporation (KCC)	Manufacturing	<b>100%</b>	100%
MPC Plastic Corporation (MPC)	Manufacturing	<b>0%</b>	100%
Pacific Plastic Corporation (PPC)	Manufacturing	<b>100%</b>	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	<b>100%</b>	100%
Weltex Industries Corporation (WIC)	Manufacturing	<b>0%</b>	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**

*Philfoods*

Philfoods started commercial operations in 2000 and was suspended in 2002. The Parent Company has sold its full interest in Philfoods last February 9, 2016 to cut continued losses on this non-operating subsidiary. Financial statements of Philfoods is no longer included in the consolidation of financial statements as of the second quarter of 2016.

### *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.

#### *MPC*

MPC was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 11, 1984. The Company was established for the purpose of producing various kinds of plastic products. The Company ceased its commercial operations in January 1994. On February 10, 2016, PCIC sold its full interest to other company, thus, it ceased to have control over the company since then. Financial statements of MPC are no longer included in the consolidation of financial statements for the second quarter of 2016.

#### *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.

#### *WIC*

WIC was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 19, 1994. The Company was established to engage in the business of manufacturing PVC pipes, PVC fittings, PE pipes, PE tubings, PE fittings, PB tubings and fittings, water meters, hand pumps, cast iron and other metal accessories, including their components and by-products. The Company ceased its commercial operations on April 30, 2002.

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

On February 10, 2016, PCIC sold its full interest to other company, thus, it ceased to have control over the company since then. Financial statements of WIC are no longer included in the consolidation of financial statements for the second quarter of 2016.

## **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.

Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at June 30, 2016 and 2015, the Group did not hold any financial assets at FVPL, AFS financial assets and HTM investments, and financial liabilities at FVPL.

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

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

- In the principal market for the asset or liability, or
  - In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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



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

For assets and liabilities that are recognized in the 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 30 to the financial statements.

### **“Day 1” Difference**

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

### **Amortized Cost of Financial Instruments**

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

### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the Group’s consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at June 30, 2016 and 2015, 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, 18 and 21).

### **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.

Other financial liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer) while non-trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as noncurrent liabilities.

As at June 30, 2016 and 2015, 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 10, 11, 18 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 statements and financial liabilities*

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 assets and financial liabilities*

##### *(a) 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.

*(b) 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.

*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 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.

## **Prepaid Taxes**

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

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, 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	50
Improvements	5 to 10
Machinery and equipment	4 to 32
Tools and equipments	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.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

### **Interest in Joint Operation**

The Group has entered into joint operations for the development of properties. A joint operation is a joint venture which involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity or a financial structure which is separate from the venturers themselves. Each venturer uses its own property and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture agreement provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

The venturers recognize in its financial statements: (a) the assets that it controls and the liabilities that it incurs, and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

### **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 Instruments**

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*

When shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

### *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.

## **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.

### **Current and Deferred Income Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss of the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized 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 reassess the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carry-forward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax 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 Related Party Transactions**

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. (b) An entity is related to the Group if, the entity and the Group are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Group, the entity is controlled or jointly controlled by a person who has control or joint control over the Group and a person as 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 to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

#### **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. Financial information on business segments is presented in Note 19.

## **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:

(a) *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.

(b) *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.

(c) *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 engage in sale of real estate property, accordingly land invested in the joint venture is classified as investment in joint venture (see Note 8).

(d) *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.

(a) *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.

Receivables (including advances to related parties and installment contract receivable), net of allowance for doubtful accounts as at June 30, 2016 and 2015 amounted to ₱195,285,901 and ₱183,438,620, respectively (see Notes 5, 18 and 21).

(b) *Useful lives of property and equipment, and investment properties*

The Group estimates the useful lives of property and equipment and investment properties, except land, are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed and updated if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of the property and equipment and investment properties is based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the investment property would increase recorded operating expenses and decrease noncurrent assets.

The net carrying values of the Group's investment properties (except land) and property and equipment as at June 30, 2016 and 2015 are as follows:

	<b>2016</b>	2015
Property and equipment - note 9	<b>₱ 34,601,361</b>	₱ 69,954,367
Investment properties - note 7	<b>63,275,334</b>	95,425,735
	<b>₱ 97,876,695</b>	₱ 169,740,895

(c) *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 ₱409,813,712 and ₱952,717,872 as at June 30, 2016 and 2015 (see Notes 7, 8 and 9).

(d) *Retirement benefits obligation*

The determination of the Group's obligation and cost of pension benefits is dependent on certain assumptions used by management in calculating such amounts. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation. In estimating the Group's retirement benefit obligation, the Group used the minimum required retirement payment of 22 ½ days for every years of service as mandated by RA 7641. The Group also considers the employees current salary rate and the employees' number of service years.

Retirement benefits obligation as at June 30, 2016 and 2015, amounted to ₱542,100 and ₱500,400, respectively (see Notes 16). The Group believes that the retirement benefits obligation and retirement expense would not materially differ had the Group used PAS 19 revised for the computation of retirement benefits.

(e) *Deferred tax assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The recognition of deferred tax assets is based on the assessment that the Group will generate sufficient taxable profit to allow all or part of the deferred tax assets will be utilized.

The Group looks at its projected performance in assessing the sufficiency and timing of future taxable income. As at June 30, 2016 and 2015, the Group's deferred tax assets with full valuation allowance are fully disclosed in Note 18.

**4. CASH**

Cash as at June 30 are as follows:

	2016	2015
Cash on hand	₱ 20,000	₱ 20,000
Cash in bank	5,436,057	3,503,931
	<b>₱ 5,456,057</b>	<b>₱ 3,523,931</b>

Cash in banks earn interest at the respective bank deposit rates. No restriction is attached to the Company's cash. Interest income earned from deposits amounted to ₱5,575 and ₱393 for the quarter ended June 30, 2016 and 2015.

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

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

	2016	2015
Receivable from related parties – note 18	₱12,982,129	₱ –
Trade receivables	3,496,332	2,718,776
Others	380,665	–
	<b>₱16,859,126</b>	<b>₱ 2,718,776</b>

Trade receivables include rental receivables amounting to ₱3,099,748 and ₱2,323,737 as at June 30, 2016 and 2015, respectively. Rental receivables are collectible monthly based on terms of the contract.

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

The credit quality and aging to trade and other receivables are fully disclosed in Note 27.

The Group's receivables as at June 30, 2016 and 2015 are not held as collateral for its liabilities and are free from any encumbrances.

**6. PREPAID TAXES**

Prepaid taxes as at June 30 are as follows:

	2016	2015
Creditable withholding tax	₱10,658,237	₱ 7,786,208
Creditable input tax	1,128,077	901,475
	<b>₱11,786,314</b>	<b>₱ 8,687,683</b>

The carrying amounts of the creditable withholding and input taxes are reduced to the extent that they are no longer probable that sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

As at June 30, 2016 and 2015, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

## 7. INVESTMENT PROPERTIES (net)

Details of investment properties as at June 30, 2016 are as follows:

	Land	Land improvements	Buildings and improvements	Total
<b>Cost</b>				
At beginning of year	₱ 980,965,235	₱ 3,290,824	₱ 312,179,250	₱1,296,435,309
Write-off	–	–	–	–
At end of year	980,965,235	3,290,824	312,179,250	1,296,435,309
<b>Accumulated depreciation</b>				
At beginning of year	–	3,290,824	70,773,534	74,064,358
Depreciation	–	–	1,532,794	1,532,794
At end of year	–	3,290,824	72,306,328	75,597,152
<b>Accumulated impairment loss</b>				
At beginning and end of year	60,810,650	–	176,597,589	237,408,238
<b>Net carrying amounts, June 30, 2016</b>	<b>₱920,154,585</b>	<b>₱ –</b>	<b>₱ 63,275,334</b>	<b>₱983,429,919</b>

Details of investment properties as at June 30, 2015 are as follows:

	Land	Land improvements	Buildings and improvements	Total
<b>Cost</b>				
At beginning of year	₱ 999,959,735	₱ 3,290,824	₱ 312,179,250	₱1,315,429,809
Write-off	–	–	–	–
At end of year	999,959,735	3,290,824	312,179,250	1,315,429,809
<b>Accumulated depreciation</b>				
At beginning of year	–	3,290,824	67,711,125	71,001,949
Depreciation	–	–	1,532,794	1,532,794
At end of year	–	3,290,824	69,243,919	72,534,743
<b>Accumulated impairment loss</b>				
At beginning and end of year	398,104,235	–	147,509,596	545,613,831
<b>Net carrying amounts, March 31, 2015</b>	<b>₱601,855,500</b>	<b>₱ –</b>	<b>₱ 95,425,735</b>	<b>₱697,281,235</b>

Beginning balance of investment properties (specifically land) already excluded those owned by MPC, a PCIC subsidiary sold to other company last February 10, 2016. This company is not included in the consolidation of financial statements.

Rental income earned on the above investment properties amounted to ₱7.7 million and ₱7.1 million for the quarters ended June 30, 2016 and 2015, respectively. While direct operating expenses incurred on the buildings such as repairs and maintenance, security, insurance and property tax, and depreciation expenses amounted to ₱3.5 million and ₱3.3 million in June 30, 2016 and 2015, respectively, shown under “Direct costs and expenses” in the statements of comprehensive income (see Note 13).

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, the fair value of building and improvements as at December 31, 2015 were determined to be lower than its cost. Accordingly, the Group recognized impairment

loss on building and improvements amounting to ₱29,087,993 (see Note 15). The fair value of land is determined to be higher than its carrying amount; accordingly previously recognized impairment loss was reversed to the extent of the lands market value. The Group recognized reversal of previously recognized impairment loss amounting to ₱337,293,585 (see Note 15).

The fair value of land, and buildings and improvements in 2014 was determined based on the appraisal conducted on December 15, 2012 and April 8, 2009, respectively.

The Group's land with aggregate carrying amount of ₱651,901,500 and ₱358,296,000 as at December 31, 2015 and 2014 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.

The carrying amount of demolished buildings and improvements amounted to ₱13,718,316, accordingly a loss of the same amount was recognized in the consolidated statements of comprehensive income under "Other income (loss)" in 2013 (see Note 15). Total cost of demolition incurred amounted to ₱408,614, net of scrap sales amounting to ₱2,595,628 (see Note 15).

Land with an aggregate carrying amount of ₱381,136,506 and ₱254,091,000 as at June 30, 2016 and 2015, respectively, are mortgaged with PNB to secure the loans obtained by related parties (see Note 1).

## 8. INTEREST IN JOINT OPERATION

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:

	<b>June 30</b>	
	<b>2016</b>	2015
<b>Cost</b>		
At beginning and end of year	<b>₱590,214,111</b>	₱ 600,408,111
<b>Accumulated impairment loss</b>		
At beginning and end of year	<b>47,641,000</b>	207,224,954
<b>Net carrying amounts</b>	<b>₱542,573,111</b>	₱ 393,183,157

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 (see Note 15). As at June 30, 2016 outstanding receivable from PHES amounted to ₱12,594,690 which pertain to the Group's share in the sale of lot net of expenses (see Note 18).

No revenue and expenses recognized in relation to the joint venture for the second quarter of 2016.

## 9. **PROPERTY, PLANT AND EQUIPMENT (net)**

The reconciliation of property and equipment as at June 30, 2016 as follows:

	Building and improvements	Machinery and equipment	Tools and equipment	Furniture and fixtures	Total
<b>Cost</b>					
At beginning and end of year	₱ 4,048,038	₱ 625,902,176	₱ 9,755,058	₱ 10,350,377	₱ 650,055,649
<b>Accumulated depreciation</b>					
At beginning of year	3,738,153	460,326,590	9,367,162	10,227,903	483,659,808
Depreciation	68,777	6,682,784	271,785	6,660	7,030,006
Balance at end of year	3,806,930	467,009,374	9,638,947	10,234,563	490,689,814
<b>Impairment loss</b>					
Balance at beginning and end of year	241,108	124,421,204	–	102,162	124,764,474
<b>Net carrying amounts, June 30, 2016</b>	₱ –	₱ 34,471,598	₱ 116,111	₱ 13,652	₱ 34,601,361

The reconciliation of property and equipment as at June 30, 2015 as follows:

	Building and improvements	Machinery and equipment	Tools and equipment	Furniture and fixtures	Total
<b>Cost</b>					
At beginning and end of year	₱ 18,898,995	₱ 883,287,076	₱ 14,935,512	₱ 10,327,519	₱ 927,449,102
<b>Accumulated depreciation</b>					
At beginning of year	7,616,648	618,346,426	14,345,235	10,316,737	639,229,048
Depreciation	71,790	7,001,771	8,432	10,782	7,092,765
Balance at end of year	7,688,428	625,348,197	14,353,667	10,327,519	657,615,649
<b>Impairment loss</b>					
Balance at beginning and end of year	7,069,958	192,706,966	–	–	199,879,086
<b>Net carrying amounts, June 30, 2015</b>	₱ 4,140,609	₱ 65,231,913	₱ 581,845	₱ –	₱ 69,954,367

Total depreciation allocated to operation amounted to ₱7,030,006 and ₱7,092,765 for the second quarter of 2016 and 2015, respectively (see Note 16).

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 ₱297,301 and ₱586,061 as at June 30, 2016 and 2015 was used as collateral to secure payment of borrowings (see Note 10).

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 shown under 'Other income (loss) – net (see Note 15).

The assessed fair value of machineries and equipment in 2013 is lower than its cost based on physical condition, economic performance of the assets when put into use and current market value based on recoverable amount or offered sales prices to interested buyers. Decline in the cost of machineries and equipment amounted to ₱63,790,634 was recognized in 2013 (see Note 15).

Beginning balances of property, plant and equipment of subsidiaries (MPC and WIC) were excluded in the consolidation of financial statements for the first quarter of 2016 since PCIC ceased to have control over these subsidiaries when it sold its full interest to other company last February 10, 2016.

## 10. BORROWINGS

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

The borrowings as at June 30 consist of:

	2016	2015
Current	₱ -	₱ -
Non-current	241,179	393,446
	<b>₱ 241,179</b>	<b>₱ 393,446</b>

Acquired transportation equipment was used as security for the loan (see Note 9).

Finance costs charged to operations amounted to ₱13,271 and ₱20,130 for the quarters ended June 30, 2016 and 2015, respectively.

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

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

	2016	2015
Accounts payable	₱ 8,947,576	₱14,366,944
Value added tax and other taxes payable	6,900,854	7,548,445
Deferred rental – note 20	943,553	1,646,339
Other payables	97,225	110,943
	<b>₱16,889,208</b>	<b>₱23,672,671</b>

The carrying amounts of accrued expenses and other current liabilities, which are expected to be settled within the next twelve months from reporting period, is a reasonable approximation of its fair value.

## 12. CAPITAL STOCK

The Parent Company has ₱3,500,000,000 authorized capital stock comprise of 3,500,000,000 common shares with par value of P1 per share. Details of the Parent Company's issued and outstanding capital stock are as follows:

	2016	2015	2014
Issued – 3,276,045,637 shares	₱ 3,276,045,637	₱ 3,276,045,637	₱ 3,276,045,637
Treasury shares – 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 June 30, 2016, 2015 and 2014, the Parent Company has outstanding 3,271,938,180 3,271,937,380 and 3,271,933,300 shares under its name. Remaining unconverted shares under REDECO as at June 30, 2016, 2015 and 2014, is 4,107,457, 4,108,257 and 4,112,337, respectively. Outstanding shares owned by the public as at June 30, 2016, 2015 and 2014, is 1,413,422,848, 1,413,518,948 and 1,413,514,868, respectively.

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

	Market value per share
<b>June 30, 2016</b>	<b>₱0.203</b>
June 30, 2015	0.190
June 30, 2014	0.335

#### *Treasury shares*

Treasury shares represent 29,486,633 Parent Company's shares of stock acquired by Rexlon Industrial Corp. (RIC), a wholly owned subsidiary of PCIC, in prior years. In 2007 and 2009, RIC sold 13,000,000 and 16,476,633 shares of the Parent Company to a third party.

### **13. DIRECT COSTS AND EXPENSES**

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

	2016		2015	
	Apr – Jun	Jan – Jun	Apr – Jun	Jan – Jun
Depreciation - note 7	₱ 713,897	₱1,532,794	₱ 766,397	₱ 1,532,794
Security services	915,087	1,830,174	893,075	1,730,174
Repairs and maintenance	160,714	160,714	–	75,589
	<b>₱1,789,698</b>	<b>₱3,523,682</b>	<b>₱1,659,472</b>	<b>₱3,338,557</b>

#### 14. **OPERATING EXPENSES**

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

	2016		2015	
	Apr – Jun	Jan – Jun	Apr – Jun	Jan – Jun
Professional fees	<b>₱1,030,500</b>	<b>₱1,477,571</b>	₱1,228,500	₱1,552,000
Salaries and wages	<b>767,793</b>	<b>1,253,137</b>	692,684	1,007,322
Depreciation	<b>3,567,500</b>	<b>7,030,006</b>	3,594,395	7,092,765
Rent, light and water	<b>294,022</b>	<b>791,781</b>	306,784	503,247
Taxes and licenses	<b>358,714</b>	<b>1,033,815</b>	348,761	555,014
Commission	<b>67,504</b>	<b>216,495</b>	117,289	189,754
SSS, Medicare and EC contributions	<b>46,670</b>	<b>68,807</b>	35,165	70,078
Others	<b>261,260</b>	<b>823,936</b>	139,542	527,500
	<b>₱6,393,963</b>	<b>₱12,695,548</b>	₱6,463,120	₱11,497,680

#### 15. **OTHER INCOME (LOSS) (NET)**

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

	2016	2015
Sale of scrap materials	<b>₱ 160,714</b>	₱ –
Interest income	<b>2,707</b>	<b>221</b>
Interest expense	<b>(4,043)</b>	<b>(20,130)</b>
Gain on sale of investment property	<b>30,158,645</b>	–
	<b>₱ 30,318,023</b>	<b>(₱ 19,909)</b>

On April 6, 2016, Rexlon Industrial, Inc., a PCIC subsidiary, sold two parcels of land for a total selling price of ₱32.3 million. The Group recognized gain on the sale of this property amounting to ₱30.2 million as reflected on the other income portion of the Statement of Comprehensive Income.

#### 16. **RETIREMENT BENEFITS OBLIGATION**

The Group adopted Republic Act No. 7641 as its arrangement to provide retirement benefits to all its regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

The movements in the defined benefit obligation recognized and presented as accrued retirement benefit obligation in the consolidated statement of financial position are as follows:

	2016	2015	2014
Balance at beginning of year	<b>₱ 542,100</b>	₱ 458,700	₱ 664,660
Retirement provision	–	41,700	41,700
Benefits paid	–	–	( 247,660)
Balance at end of year	<b>₱ 542,100</b>	₱ 500,400	₱ 458,700

The provision for retirement benefits in 2014 and 2013 were included under salaries, wages and employees benefit in the consolidated statements of comprehensive income. Management believes that the defined benefit obligation computed using the provisions of R.A 7641 is not materially different with the amount computed using the projected unit credit method as required under PAS 19, Employee Benefits.

#### 17. **INCOME TAX**

##### *Current and deferred 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. In 2015, 2014 and 2013, the Group is subject to MCIT amounting to ₱78,999, ₱154,798 and ₱83,194, respectively.

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.

## 18. RELATED PARTY TRANSACTIONS

The Group, in the normal course of business, has transactions with related parties. The specific relationships, amount of transaction, account balances, the terms and conditions and the nature of the consideration to be provided in settlement are shown below.

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	Jun 30 2016	Jun 30 2015	Jun 30 2016	Mar 31 2015	
<b>Receivable from related parties with common key management</b>					
Philippine Estates Corp. (PHES)	<b>₱12,594,690</b>	<b>₱ -</b>	<b>₱12,594,690</b>	<b>₱ -</b>	(a)
Genwire Manufacturing Corp. (GMC)	<b>168,506</b>	<b>-</b>	<b>168,506</b>	<b>-</b>	(b)
Concept Moulding Corp. (CMC)	<b>218,933</b>	<b>-</b>	<b>218,933</b>	<b>-</b>	(b)
	<b>₱12,982,129</b>	<b>₱ -</b>	<b>₱12,982,129</b>	<b>₱ -</b>	

Category	Amount/Volume		Outstanding Receivable		Terms and condition
	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015	
<b>Advances to related parties with common key management</b>					
Metro Alliance Holdings and Equities Corp. (MAHEC)	<b>₱ -</b>	<b>₱ -</b>	<b>₱105,060,000</b>	<b>₱105,060,000</b>	(c)
The Wellex Group, Inc. (TWGI)					
Cash advances	<b>(4,061,907)</b>	<b>(1,755,432)</b>	<b>75,007,796</b>	<b>72,407,073</b>	(c)
Consultancy fee	<b>(232,800)</b>	<b>(116,400)</b>			
Rental and utilities	<b>(116,250)</b>	<b>( 58,125)</b>			
Stockholders	<b>23,424,398</b>	<b>-</b>	<b>23,424,398</b>	<b>-</b>	(c)
Wellex Petroleum, Inc. (WPI)	<b>26,698</b>	<b>15,062</b>	<b>26,698</b>	<b>2,267,217</b>	(c)
	<b>19,040,139</b>	<b>(1,914,895)</b>	<b>203,518,892</b>	<b>179,734,290</b>	
Allowance for impairment	<b>-</b>	<b>-</b>	<b>(56,413,260)</b>	<b>(56,413,260)</b>	
	<b>₱19,040,139</b>	<b>(₱1,914,895)</b>	<b>₱147,105,632</b>	<b>₱123,321,030</b>	

Category	Amount/Volume		Outstanding Payable		Terms and conditions
	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015	
<b>Payable to related parties with Common key management</b>					
International Polymer Corp. (IPC)		<b>₱ (₱13,644,163))</b>	<b>₱ -</b>	<b>₱13,644,163</b>	(c)
		<b>-</b>			
	<b>₱ -</b>	<b>(₱13,644,163)</b>	<b>₱ -</b>	<b>₱ 13,644,163</b>	

<b>Advances from related parties with Common key management</b>					
Diamond Stainless Corp. (DSC)	<b>-</b>	<b>₱ -</b>	<b>₱132,846,223</b>	<b>₱132,846,332</b>	(d)
Plastic City Corp. (PCC)	<b>311,705</b>	<b>313,260</b>	<b>86,614,341</b>	<b>86,302,636</b>	(d)
Philippine Estates Corp. (PHES)	<b>553,916</b>	<b>(88,793)</b>	<b>28,261,514</b>	<b>27,707,598</b>	(d)
International Polymer Corp. (IPC)	<b>(3,124,008)</b>	<b>4,361,094</b>	<b>28,894,077</b>	<b>32,018,085</b>	(d)
Kenstar Industrial Corp. (KIC)	<b>-</b>	<b>-</b>	<b>23,539,858</b>	<b>23,539,858</b>	(d)
Rexlon Realty Corp. (RIC)	<b>-</b>	<b>-</b>	<b>23,187,370</b>	<b>23,187,370</b>	(d)
Pacific Rehouse Corp. (PRC)	<b>-</b>	<b>-</b>	<b>15,540,753</b>	<b>15,540,753</b>	(d)
Ropeman	<b>-</b>	<b>-</b>	<b>8,101,207</b>	<b>8,101,207</b>	(d)
Asia Pacific Corp. (APC)	<b>(4,046,257)</b>	<b>-</b>	<b>-</b>	<b>4,046,257</b>	(d)
Concept Moulding Corp. (CMC)	<b>(1,220,105)</b>	<b>(1,881,983)</b>	<b>-</b>	<b>1,220,105</b>	(d)
	<b>(7,524,749)</b>	<b>2,703,578</b>	<b>346,985,343</b>	<b>354,510,092</b>	
<b>Advances from stockholders/key management</b>					
Key management and officers	<b>(239,330)</b>	<b>3,253,613</b>	<b>161,814,275</b>	<b>162,053,605</b>	(e)
	<b>(7,285,419)</b>	<b>₱5,957,191</b>	<b>₱508,799,618</b>	<b>₱516,563,697</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 8).

*(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*

*MAHEC*

On November 24, 2009, Philippine Veterans Bank foreclosed land to secure payment of loan of an affiliate amounting to ₱88.8 million by virtue of the real estate mortgage, executed by the Group. The property was sold at an auction to the highest bidder Philippine Veterans Bank which tendered an amount of ₱71.326 million.

The Group recognized advances to Metro Alliance Holdings and Equities Corp. of ₱105.06 million for the value of the land foreclosed to settle the affiliate loan with the bank.

Settlement of related party transaction occurs in cash throughout the financial year. The advances are unsecured, with no definite terms of repayment and with no guarantee. The Group did not provide any allowance for impairment for the amount of receivable as the entire amount is deemed collectible.

*TWGI*

The Group provided non-interest bearing, unsecured and unguaranteed advances to TWGI. To settle the outstanding advances, the Group entered into the following contracts with TWGI, which in return, amounts incurred will be applied to the outstanding advances:

- The Group entered into a consultancy agreement with TWGI. Total consultancy fees incurred for the quarters ended June 30, 2016 and 2015, amounted to ₱120,00 for both quarters, shown under 'Professional fees' account in the consolidated statements of comprehensive income (see Note 14). The agreement was renewed by both parties last May 1, 2016 for another two years.
- Lease Agreement for the Group's office space for a monthly rental of ₱20,000, utilities of ₱5,000, and storage fee of ₱1,000 from April 1, 2012 to April 2, 2014. The lease agreement was renewed for another two (2) years commencing on May 1, 2014 to April 30, 2016. Total rent expense incurred for the second quarter of 2016 and 2015, amounted to ₱37,500, respectively, while utilities amounted to ₱18,000 for both quarters of 2016 and 2015, as shown in the consolidated statements of comprehensive income (see Note 14). The agreement was renewed by both parties last May 1, 2016 for another two years.

The Group originally provides allowance for impairment amounting to ₱56,413,260 as at June 30, 2016 and 2015 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.

*WPI*

The Group initially provides advances to Wellex Petroleum, Inc. for payment of its operating expenses. These advances are non-interest bearing, with no definite terms of repayment period and with no guarantee. The Group did not provide any allowance for impairment for the amount of receivables as the entire amount is deemed collectible. The advances are gradually settled through cash payment.

*(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.

Payable to PHES is due on December 31, 2017 with the option given to the Group to settle the advances before its maturity. This cash advance carries interest of 2% per annum. Finance cost accrued as at June 30, 2016 amounted to ₱13,271.

*(e) Advances from key management*

The Group obtains non-interest bearing and unsecured advances from stockholders and key officers for working capital purposes. The advances have no guarantee and definite terms of repayment. Payment will depend on the availability of funds. This amount are payable in cash upon settlement.

*(f) Collateral properties held by related parties*

As at June 30, 2016 and 2015, the Group's investment properties with a carrying amount of ₱381.14 and ₱254.09 million, respectively, were used as collateral to secure loans obtained by related parties (see Note 7).

*(g) Other transaction with key management*

Directors' fees paid for the years ended December 31, 2015, 2014 and 2013 amounted to ₱44,444, ₱44,444 and ₱30,000, respectively. There are no director's fees for the second quarter of 2016 since the Company has not held its annual meeting yet.

With the cessation of the subsidiaries commercial operations in prior years and the Group is in tight cash position, management decided to suspend any form of compensation to key management and officers effective in 2004.

**19. 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 ₱2,052,410 and ₱1,580,870 as at June 30, 2016 and 2015, respectively. Deferred rental income relative to the lease amounted to ₱943,553 as at June 30, 2016 and ₱1,646,339 as at June 30, 2015 as shown under 'Accounts payable and other liabilities' account (see Note 11).

The future minimum rental income is as follows:

	June 30	
	2016	2015
Due not later than one year	<b>₱3,099,748</b>	₱2,699,539
Due more than one year but not more than three years	—	—
	<b>₱3,099,748</b>	₱2,699,539

The carrying amount of the buildings being leased out is ₱312,179,250 and ₱697,281,235 as at June 30, 2016 and 2015, respectively.

Outstanding balance of receivable from tenants as at June 30, 2016 and 2015 amounted to ₱3,496,331 and ₱2,704,942, respectively (see Note 5). Total rental income is ₱7,689,283 and ₱7,138,525 in June 30, 2016 and 2015, respectively.

## **20. MEMORANDUM OF AGREEMENT WITH AVIDA LAND CORPORATION**

On December 17, 2012, PCIC subsidiaries, Pacific Plastic Corp. (PPC), Inland Container Corp. (ICC), Kennex Container Corp. (KCC), MPC Plastic Corp. (MPC) and related parties, Plastic City Corp. (PCC), Westland Pacific Properties Corp. (WPPC), International Polymer Corp. (IPC) and Philippine Estates Corp. (PHES) ('the Landowners'), entered into a Memorandum of Agreement (MOA) with Avida Land Corp. (ALC) for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based a Master Plan determined by ALC.

Under the MOA, the Landowners shall cede, transfer and convey the property including all its rights and interest on the property. The Landowner shall execute the Deed of Conveyance for the entire or certain portions of property and transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances as may be required in accordance with the development schedule of ALC.

In consideration for the conveyance by the Landowners of the property, the parties shall mutually agree on the value for each portion of the property.

On the same date, PPC entered into a Contract to Sell (CTS) with ALC, for the sale of 25,203 sq. meters of land located in Valenzuela City. The land was sold for a total purchase price of ₱63,685,440 (inclusive of VAT) payable in 10% down payment, which was received during the year, and with the balance payable in three (3) equal installments from 2013 to 2015.

As at June 30, 2016 and 2015, 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 December 31, 2015, properties covered by the MOA has not been transferred to ALC pending the resolution of corporate rehabilitation filed by the Group (see Note 1). Accordingly, no payment has been made by ALC on the second installment.

## 21. LOSS PER SHARE

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

	2016	2015	2014
Consolidated net income (loss) for the quarter	<b>₱25,633,202</b>	(₱ 5,075,120)	(₱ 3,588,749)
Weighted average number of common shares outstanding during the year	<b>3,276,045,637</b>	3,276,045,637	3,276,045,637
Loss per share	<b>₱ 0.0078</b>	(₱0.0015)	(₱ 0.0011)

## 22. 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 mortgage in the amount of ₱198,639,000.

The Parent Company filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of ₱500 million. A decision was issued on January 12, 2015 where the contract of loan and real estate mortgage were declared null and void. Thus, WPI was directed to return the amount of ₱375 million to SSS and for SSS to return the properties and shares used as collateral.

The Group's filed several collection cases with third parties for the claims of certain amounts. Decisions were already reached by the court for collection of the sum of ₱1,476,534, however, execution was pending as at June 30, 2016 and 2015.

## 23. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Non-cash financing and operating activities consist of:

	2016	2015	2014
Addition to property and equipment under installment contract	<b>₱ -</b>	<b>₱ -</b>	<b>₱ 476,000</b>
Settlement of borrowings through advances from PCC	-	-	-
	<b>₱ -</b>	<b>₱ -</b>	<b>₱ 476,000</b>

## 24. RISK MANAGEMENT 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:

### a) Credit risk

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

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position (with trade and other receivables

and advances to related parties presented gross of allowance for doubtful accounts), as summarized below:

	June 30	
	2016	2015
Cash, excluding cash on hand – note 4	<b>₱5,436,057</b>	₱3,503,931
Trade and other receivables, at net amount - note 5	<b>16,859,126</b>	2,718,776
Installment contract receivable – note 22	<b>57,316,896</b>	57,316,896
Advances to related parties, at gross amount - note 18	<b>203,518,892</b>	179,734,290
	<b>₱283,130,971</b>	₱243,273,893

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.

#### *Advances to related parties*

As at June 30, 2016 and 2015, 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 19. Further, the Group has identified real properties owned by related parties which can be used to settle the outstanding advances.

The aging of financial assets is shown below:

June 30, 2016	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	₱5,436,057	₱ –	₱ –	₱ –	₱ –	₱5,436,057
Receivables from:						
Trade	993,489	968,638	353,436	1,180,769	–	3,496,332
Related parties	–	–	–	12,982,129	–	12,982,129
Others	380,665	–	–	–	–	380,665
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	147,105,632	56,413,260	203,518,892
	<b>₱64,127,107</b>	<b>₱968,638</b>	<b>₱353,436</b>	<b>₱161,268,530</b>	<b>₱56,413,260</b>	<b>₱283,130,971</b>



June 30, 2015

	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	₱3,503,931	₱ –	₱ –	₱ –	₱ –	₱3,503,931
Receivables from:						
Trade	2,034,596	261,363	369,585	53,232		2,718,776
Related parties	–	–	–	–	–	–
Others	–	–	–	–	–	–
Installment contract receivable	57,316,896	–	–	–	–	57,316,896
Advances to related parties	–	–	–	123,321,030	56,413,260	179,734,290
	<b>₱62,875,423</b>	<b>₱261,363</b>	<b>₱369,585</b>	<b>₱123,374,262</b>	<b>₱56,413,260</b>	<b>₱243,273,893</b>

Certain trade and other receivables and advances to related parties were assessed to be impaired and allowance for doubtful accounts amounting to ₱56,413,260 as at June 30, 2016 and 2015, has been provided (see Notes 5 and 19).

b) Liquidity risk

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

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

June 30, 2016	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities, excluding value added tax and other taxes payable	₱ –	₱16,242,676	₱ –	₱16,242,676
Advances from related parties	508,799,618	–	–	508,799,618
Advances from lessees	–	2,052,410	–	2,052,410
	<b>₱508,799,618</b>	<b>₱18,295,086</b>	<b>₱ –</b>	<b>₱527,094,704</b>

June 30, 2015	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 value added tax and other taxes payable	₱ –	₱ 14,486,204	₱ –	₱14,486,204
Advances from related parties	516,563,696	–	–	516,563,696
Advances from lessees	–	1,580,871	–	1,580,871
	<b>₱ 516,563,696</b>	<b>₱16,067,075</b>	<b>₱ –</b>	<b>₱532,630,771</b>

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. CATEGORIES AND FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

a) Categories and fair value of financial assets and liabilities

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statement of financial position are shown below:

	June 30, 2016		June 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets classified as loans and receivables</b>				
Cash, excluding cash on hand	₱ 5,436,057	₱ 5,436,057	₱ 3,503,931	₱ 3,503,931
Trade and other receivables	16,859,126	16,859,126	2,718,776	2,718,776
Installment contract receivable	57,316,896	57,316,896	57,316,896	57,316,896
Advances to related parties	147,105,632	147,105,632	123,321,030	123,321,030
	<b>₱226,717,711</b>	<b>₱226,717,711</b>	<b>₱186,860,633</b>	<b>₱186,860,633</b>

	June 30, 2016		June 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities classified as other financial liabilities</b>				
Accounts payable and other liabilities, excluding VAT and other taxes payable	₱ 16,242,676	₱ 16,242,676	₱ 14,486,204	₱ 14,486,204
Advances from related parties	508,799,618	508,799,618	516,563,697	516,563,697
Advances from lessees	2,052,410	2,052,410	1,580,870	1,580,870
	<b>₱527,094,704</b>	<b>₱527,094,704</b>	<b>₱532,630,771</b>	<b>₱532,630,771</b>

b) Fair value estimation

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.

c) Fair value hierarchy

The different fair value valuation methods are fully disclosed in Note 2.

As at June 30, 2016 and 2015, the Group has no financial assets or liabilities whose fair value is measured by valuation method under Levels 1, 2 and 3.

## 26. **CAPITAL RISK MANAGEMENT**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for stockholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as share capital and deficit for the purpose of capital management.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including accounts payables and other liabilities, advances from related parties as shown in the consolidated statement of financial position) less cash. Total capital is calculated as Equity as shown in the consolidated statement of financial position plus Net debt.

During the second quarter of 2016, the Group's strategy, which was unchanged from 2015, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at June 30, 2016 and 2015 were as follows:

	June 30	
	2016	2015
Accounts payable and other liabilities	<b>₱16,889,208</b>	₱ 23,672,671
Advances from lessees	<b>2,052,410</b>	1,580,870
Advances from related parties	<b>508,799,618</b>	516,563,697
Retirement benefits obligation	<b>542,100</b>	500,400
Gross debt	<b>528,283,336</b>	542,317,638
Cash	<b>(5,456,057)</b>	(3,523,931)
Net debt	<b>522,827,279</b>	538,793,707
Total equity	<b>1,270,784,745</b>	813,456,835
Total capital	<b>₱1,793,612,024</b>	₱1,352,250,542
Gearing ratio	<b>29.15%</b>	39.84%

The status of the Group's operation and management plan is fully disclosed in Note 1.

## 27. **RECLASSIFICATION**

Certain accounts in 2016 consolidated financial statements were reclassified to conform to the current year's presentation.

The Group has reclassified advances from lessee from non-current liabilities to current liabilities as lease agreements with tenants were converted to short-term lease (see Note 21). The reclassification does not affect the total assets, liabilities and equity previously presented in the consolidated financial statements.

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**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
June 30, 2016

	<b>June 30 2016</b>	June 30 2015	December 31 2015
<b>Profitability Ratios:</b>			
Return on assets	<b>0.50%</b>	Nil	24.23%
Return on equity	<b>0.70%</b>	Nil	34.65%
Net profit margin	<b>1165.00%</b>	Nil	2858.39%
Gross profit margin	<b>54.17%</b>	Nil	51.06%
<b>Solvency and liquidity ratios:</b>			
Current ratio	<b>482.63%</b>	<b>286.09%</b>	326.10%
Debt to equity ratio	<b>41.59%</b>	<b>66.72%</b>	43.00%
<b>Financial leverage ratios:</b>			
Asset to equity ratio	<b>141.59%</b>	<b>166.72%</b>	143.03%
Debt to asset ratio	<b>29.37%</b>	<b>40.02%</b>	30.00%
Interest rate coverage ratio	<b>Nil</b>	Nil	Nil

