



111042015000217



## SECURITIES AND EXCHANGE COMMISSION

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Company Information

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Company Type Stock Corporation

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A N D S U B S I D I A R I E S

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

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

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Fiscal Year

1 7 - Q

FORM TYPE

Month      Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Dept. Requiring this Doc.

Amended Articles Number/Section

Amended Articles Number/Section

Total Amount of Borrowings

1,014

Total No. of Stockholders

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

Document I.D.

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Cashier

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**3rd QUARTER REPORT: WIN**

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

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

1. For the Quarterly Period ended **September 30, 2015**
  
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

	Amounts in Php			
	July – Sept 2015	July – Sept 2014	Jan. – Sept 2015	Jan. – Sept 2014
<b><i>Income Statement</i></b>				
Rental Income	3,840,729	3,746,494	10,979,254	10,672,593
Direct Costs and Expenses	1,281,484	2,164,521	4,620,041	4,597,969
Gross Profit	2,559,245	1,581,973	6,359,213	6,074,624
Operating Expenses	6,235,958	3,542,436	17,733,638	14,729,756
Income (Loss) from operations	(3,676,713)	(1,960,463)	(11,374,425)	(8,655,132)
Other income (charges)	(3,144)	–	(22,881)	4,117
	(3,679,857)	(1,960,463)	(11,397,306)	(8,651,015)
Income tax expense	(79,713)	(45,758)	(380,424)	(69,594)
<b>Net Loss for the period</b>	<b>(3,759,570)</b>	<b>(2,006,221)</b>	<b>(11,777,730)</b>	<b>(8,720,609)</b>
<b>Earnings / (Loss) Per Share</b>	<b>(₱0.0011)</b>	<b>(₱0.0006)</b>	<b>(₱0.0036)</b>	<b>(₱0.0027)</b>

<b><i>Balance Sheet</i></b>	<b>As of September 30, 2015</b>	<b>As of September 30, 2014</b>
Current Assets	71,852,499	53,656,865
Advances to Affiliates	121,712,282	125,112,734
Investment Properties	696,514,838	699,574,990
Investment in a Joint Operation	393,183,157	393,183,157
Plant, Property and Equipment	66,435,598	82,280,316
Installment contract receivable - noncurrent	–	19,105,632
Other Assets	180,844	180,844
<b>Total Assets</b>	<b>1,349,879,218</b>	<b>1,373,094,538</b>
Current Liabilities	29,016,882	33,632,520
Non-Current Liabilities	511,165,071	511,175,800
Stockholder's Equity	809,697,265	828,286,218
<b>Total Liabilities &amp; Equity</b>	<b>1,349,879,218</b>	<b>1,373,094,538</b>

**Quarter ended September 30, 2015 as compared with quarter ended September 30, 2014**

As of the quarter ending September 30, 2015, the company has ceased commercial operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the third quarter of 2015 amounted to ₱3.8 million as compared to the same quarter of 2014 amounting to ₱3.7 million or an increase of ₱0.1 million or only just 3% was due to almost same number of tenants and rental fees charged for both quarters of 2015 and 2014.

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 per share comparison for the quarter ended September 30, 2015 and 2014 are (₱0.0036) and (₱0.0027), respectively.

As of September 30, 2015, there are eight (9) companies leasing inside the PCIC compound occupying sixteen (17) 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	San Miguel Packaging Specialists, Inc.	ICC	32	3,052	08.01.14 – 08.30.15	160,230.00
2	San Miguel Packaging Specialists, Inc.	ICC	33	2,340	08.14.14 – 08.14.15	145,000.00
3	San Miguel Packaging Specialists, Inc.	ICC	34	800	11.24.14 – 07.23.15	65,000.00
4	Ginebra San Miguel, Inc.	ICC	Office 1		01.01.14 – 04.30.15	9,345.79
5	Ginebra San Miguel, Inc.	ICC	Office 2		01.01.14 – 06.30.15	9,345.79
6	SMYPC – Manila Glass Plant	ICC	22-B	1,134	04.05.14 – 09.05.15	56,700.00
7	Fabri-Galv Services Limited Corp.	KCC	15	1,100	01.31.14 – 09.30.15	60,500.00
8	Carter Industrial Corp.	KCC	19	1,050	04.01.14 – 09.30.15	99,000.00
9	Big Thumb Enterprises	PPC	23 open space	35	01.01.14 – 09.30.15	1,691.04
10	San Miguel Brewery, Inc.	PPC	Shipping yard	1,430	04.30.14 – 09.30.15	49,962.41
11	San Miguel Brewery, Inc.	PPC	23	3,105	04.30.14 – 09.30.15	216,969.63
12	San Miguel Brewery, Inc.	PPC	24	1,134	04.01.14 – 09.30.15	81,180.00
13	San Miguel Brewery, Inc.	PPC	25	1,134	04.01.14 – 09.30.15	81,180.00
14	San Miguel Brewery, Inc.	PPC	25 open yard	812	04.01.14 – 06.30.15	45,000.00
15	San Miguel Brewery, Inc.	PPC	27 open yard	452	04.01.14 – 06.30.15	24,000.00
16	Polymiles Marketing	PPC	Bldg. 26	524	04.01.14 – 09.30.15	27,510.00
17	Goeng Marketing	PPC	28	527	04.01.14 – 12.31.15	27,510.00

- Direct cost and expenses for the third quarter of 2015 totaled ₱1.3 million as compared to ₱1.4 million for the third quarter of 2014 or a decrease of ₱0.1 million or 8%. The account is composed of depreciation expense, repairs and maintenance, security services and property taxes. The minimal decrease for third quarter of 2015 is attributable to decrease in depreciation expense for buildings that were already fully depreciated as of last year and a little decrease in security service charges. No repairs were made for the quarter. Property taxes are paid and expensed at the first quarter of 2015.
- Operating expenses for the third quarter of 2015 increased by ₱1.2 million as compared to third quarter of 2014 is due to legal expense amounting to ₱1.2 million incurred by the Parent Company for filing of case before the Supreme Court against Pinecrest Realty Corp. for Reformation of Instrument, Reconveyance and Damages over the Parent Company's subject properties. All other operating expenses remain at the same level of expenses as compared to third quarter of 2014. Operating expenses as of September 30, 2015 amounted to ₱17.7 million compared to ₱14.7 million as of September 30, 2014 or an increase of ₱3 million or 20%. The increase is due to net effect of (a) increase in professional fee (₱0.7 million or 33%); (b) decrease in salaries and wages (₱0.3 million or 17%); (c) increase in depreciation expense (₱2.4 million or 30%); (d) increase in rent, light and water (₱0.1 million or 15%); and (e) general

and administrative expenses (₱0.1 million or 15%).

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

### **Performance Indicators**

As the Parent Company is still in the process of discussing with potential investors for its oil and mineral exploration, and its subsidiaries, PCIC and Philfoods, ceased its manufacturing operations 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 performance by determining Rental Income and the number of tenants for the year. For the 3rd quarter of 2015, the company has an average of ₱0.6 million rental income per tenant or a decrease of ₱0.02 million rental income per tenant or 3% as compared to 3rd quarter of 2014. Decrease was due to increase in number of tenants with no changes in rental fee charges for the quarter.
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 third quarter of 2015, ratio of past due receivables to total outstanding was 29% on the third quarter of 2015.
3. Gross Profit Margin – this is derived by dividing the gross profit over the revenues amount. Third quarter of 2015 has a gross profit margin of 67% as compared to 62% on the third quarter of 2014. Increase is attributable to increase in the rental income and decrease in direct cost and expenses for the third 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 third quarter of 2015 was 247.62% as compared to 160% on the third quarter of 2014. Increase is attributable to the classification of previously recorded non-current portion of installment contract receivable as current and decrease on other current liabilities.
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 third quarter of 2015, the company has settled a total advances from affiliates amounting to ₱7 million and a total collection of its advances to affiliates of ₱1.8 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 ₱1,568,880 and ₱2,062,933 for the quarters ended September 30, 2015 and 2014 or a decrease of ₱0.5 million or 24%. The decrease pertains to the improved collection program of the Group. 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 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 September 30, 2015 and 2014, current portion of installment contract receivable amounted to ₱57,316,896 and ₱38,211,264,

respectively. As at September 30, 2015, 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 ₱0.5 million or 6% 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 September 30, 2015 and 2014, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

Advances to Related Parties. A decreased by ₱3.4 million or 3% was due to collections and/or offsetting of related receivables and payables among the Group. The Group, in the normal course of business, has transactions with related parties. Receivables from related parties with common key management are normally collected the following year, unsecured, non-interest bearing and with no guarantee. 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. Decrease in book value was due to depreciation recorded for the quarter of 2015 amounting to ₱12,910,725 (₱2.3 million is charged to cost and ₱10.6 million is charged to operating expenses).

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 September 30, 2015 and 2014 were ₱26.8M and ₱31.9M, respectively, or a decrease of ₱5.1M or 16%. Decrease is mainly due to payment of other liabilities during the quarter. 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. A total amount of ₱510.3M were recorded for the third quarter of 2015 as compared to ₱510.7M for the third quarter of 2014, or a decrease of ₱0.4M or 0.08% due to company's program to prioritize the settlement of certain payables to government that are already due and demandable.

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 September 30, 2015 and 2014 is ₱2.2M and ₱1.7M, respectively or an increase of ₱0.5M or 29% due to new lease contracts entered



for the 3rd quarter of 2015.

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.

##### **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. Management will also sort out management plans as it reworks its priorities.

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.

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

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

(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 operations, there are no commitments on major capital expenditures.

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

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 third quarter of 2015 compared to 2014 was increased by 3% due to entry of new lease contracts during the quarter. As of September 30, 2015 there are eight (9) lessees occupying sixteen (17) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to eleven (8) lessees, occupying nineteen (16) areas for 2014.

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 third quarter of 2015 is 247.62% with recorded current assets of ₱71.9M over ₱29M 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. Management will also sort out its management plans as it reworks its priorities.

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

The results of operations for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Rental Income	P 14,103,963	P 10,765,789
Direct Cost and Expenses	6,535,842	7,454,509
Gross Profit	7,568,121	3,311,280
Operating Expenses	24,529,954	32,829,256
Income from Operations	(16,961,833)	(29,517,976)
Other Income (expenses)	545,665	(77,916,286)
	(16,416,168)	(107,434,262)
Finance Cost	( 3,671)	-
Income (Loss) Before Tax	(16,419,839)	(107,434,262)
Income Tax Expense		
Current	( 162,156)	( 428,110)
Deferred	-	-
Net Loss for the Year	(16,581,995)	(107,862,372)

See also notes to financial statements.

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

Here as some analyses:

<u>Income Statement:</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>	<u>%</u>
<u>Rental Income</u>	₱14,103,963	₱10,765,789	₱ 3,338,174	24%
- As of December 31, 2014 there are 10 companies occupying 19 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.

Direct Cost and Expenses      ₱6,535,842      ₱7,454,509      (₱918,667)      (14%)

- Repairs & maintenance, security services, property taxes, insurance and depreciation are the major accounts. Decrease was due to less repairs made during the year and lesser property taxes and insurance paid.

Operating Expenses      ₱24,529,954      ₱32,829,256      (₱8,299,302)      (34%)

- 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.

Other Income (Loss)      ₱ 545,665      (₱77,916,286)      ₱78,461,951      14397%

- Other income for 2014 pertains to interest income on cash deposits and income due to reversal of accounts payable. Other loss in 2013 pertains to the write-off of investment properties. The carrying amount of demolished buildings and improvements amounted to ₱13,718,316, incurring a demolition cost amounting to ₱408,614. In addition, an impairment loss on machineries and equipment was recognized in 2013 amounting to ₱63,790,634. In 2013, the management assessed that the fair value less cost to sell 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.

#### **Balance Sheet:**

Advances to Affiliates      ₱123,502,292      ₱128,013,898      (₱14,511,606)      (4%)

- 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      ₱59,821,145      ₱40,011,691      ₱19,809,454      33%

- Includes rental receivables which are collectible monthly based on terms of contract. Net Increase in the balance is due to classification of the 3<sup>rd</sup> installment receivable amounting to P19,105.632 as current and renewal of lease contracts. 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 26 of Notes to Consolidated Financial Statements.

Investment Properties      ₱698,814,029      ₱701,882,797      (₱3,068,769)      (0.4%)

- Decrease is due to depreciation recognized for the year. The Group assessed that the change in the fair market value of land, land improvement and building and improvement as at December 31, 2014, in reference to appraised value in 2012 and 2009, is insignificant based on existing zoning classification, market condition and physical condition that would require reassessment of the investment properties fair values.

Property Plant & Equipment      ₱77,047,132      ₱90,460,585      (₱13,413,453)      (17%)

- Decrease is due to net effect of provision for depreciation expense for the year amounting to ₱14,020,595 and acquisition of transportation and equipment under a chattel mortgage agreement with a local bank amounting to ₱607,142.

#### **Advances from Affiliates & Stockholders**

₱517,332,030      ₱518,940,258      (₱1,608,228)      (0.3%)

- 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.

-Increase for the year ended December 31, 2014 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 = 247.62%

***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 September 30, 2015 and 2014 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 September 30, 2015 and 2014, 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 September 30, 2015 and 2014, 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:

<b><u>“ CLASS A ”</u></b>		
	<u>High</u>	<u>Low</u>
2015		
First Quarter	0.243	0.235
Second Quarter	0.200	0.190
Third Quarter	0.234	0.216
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
2012		
First Quarter	0.430	0.400
Second Quarter	0.360	0.335
Third Quarter	0.335	0.320
Fourth Quarter	0.300	0.290

The price information as of November 2, 2015 (latest practical trading date) was closed at ₱0.235 for Class A, the only security traded by the Company, and there are 1,014 stockholders.

**(2) Holders**

1. The numbers of shareholders of record as of September 30, 2015 were 1,014. Common shares issued and subscribed as of September 30, 2015 were 3,271,937,380.

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**List of Top 20 Stockholders of Record**  
**September 30, 2015**

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	PERCENTAGE TO TOTAL OUTSTANDING
PCD NOMINEE CORP.	FILIPINO	907,073,023	27.723
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	6.438
ELVIRA A. TING	FILIPINO	111,850,000	3.418
KENNETH T. GATCHALIAN	FILIPINO	100,000,100	3.056
THE WELLEX GROUP, INC.	FILIPINO	80,000,000	2.445
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
PCD NOMINEE CORPORATION (NON-FILIPINO)	OTHERS	47,587,000	1.454
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 NOV 04 2015

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig.

Registrant: **KENNETH T. GATCHALIAN**  
Title: **President**

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

Registrant: **ATTY. MARIEL L. FRANCISCO**  
Title: **Corporate Secretary**

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

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

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

Dated NOV 04 2015

SUBSCRIBED AND SWORN to before me this NOV 04 2015 day of \_\_\_\_\_, 2015 in \_\_\_\_\_ affiant (s) exhibiting to me his/their Tax Identification No. as follows:

**QUEZON CITY**

**AFFIANTS**

**TAX IDENTIFICATION NO.**

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

167-406-526-000  
224-150-060-000  
140-857-860-000

Doc. No.: 277  
 Page No.: 1  
 Book No.: 2A  
 Series of: 7015

*Benjamin F. Alfonso*  
**CITY OF PASIG, BENJAMIN F. ALFONSO**  
**NOTARY PUBLIC**  
 UNTIL December 31, 2016  
 LTR NO. 0682937-C-1-20-15 - QUEZON CITY  
 REP. NO. 975600 12-11-2014 - QUEZON CITY  
 ROLL NO 13296  
 ADM. MATTER NO. NP-144 (2015 - 2016)  
 TIN NO. 177967619  
 MCLE EXEMPTED



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

“ANNEX A.1”

	Unaudited September 30 2015	Unaudited September 30 2014	Audited December 31 2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash - note 4	₱ 4,198,058	₱ 5,137,421	₱ 3,319,324
Trade and other receivables (net) – note 5	1,568,880	2,062,933	2,504,249
Prepaid taxes – note 6	8,768,665	8,245,247	8,448,981
Installment contract receivable – note 21	57,316,896	38,211,264	57,316,896
	71,852,499	53,656,865	71,589,450
<b>Noncurrent Assets</b>			
Investment properties (net) – note 7	696,514,838	699,574,990	698,814,029
Investments in a joint operation (net) – note 8	393,183,157	393,183,157	393,183,157
Property and equipment (net) – note 9	66,435,598	82,280,316	77,047,132
Advances to related parties – note 17	121,712,282	125,112,734	123,502,292
Installment contract receivable – note 21	–	19,105,632	–
Other assets	180,844	180,844	180,844
	1,278,026,719	1,319,437,673	1,292,727,454
<b>TOTAL ASSETS</b>	<b>₱1,349,879,218</b>	<b>₱1,373,094,538</b>	<b>₱1,364,316,904</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities- note 11	₱ 26,843,134	₱ 31,929,939	₱ 22,644,420
Advances from lessees – note 20	2,173,748	1,702,581	1,900,581
Borrowings (net of noncurrent portion) – note 10	–	–	145,398
	29,016,882	33,632,520	24,690,399
<b>Noncurrent Liabilities</b>			
Borrowings – note 10	356,685	–	319,080
Advances from related parties – note 17	510,307,986	510,717,100	517,332,030
Retirement benefits obligation – note 16	500,400	458,700	500,400
	511,165,071	511,175,800	518,151,510
<b>TOTAL LIABILITIES</b>	<b>₱ 540,181,953</b>	<b>₱ 544,808,320</b>	<b>₱ 542,841,909</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	(2,490,831,173)	(2,472,242,220)	(2,479,053,443)
	809,707,265	828,296,218	821,484,995
Treasury stock	(10,000)	(10,000)	(10,000)
	809,697,265	828,286,218	821,474,995
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,349,879,218</b>	<b>₱1,373,094,538</b>	<b>₱1,364,316,904</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 September 30, 2015 and 2014**

**“ANNEX A.2”**

	<b>July – Sept 2015</b>	<b>July – Sept 2014</b>	<b>Jan – Sept 2015</b>	<b>Jan – Sept 2014</b>
<b>RENTAL INCOME</b> – notes 7 and 21	<b>₱ 3,840,729</b>	₱ 3,746,494	<b>₱ 10,979,254</b>	₱ 10,672,593
<b>DIRECT COST AND EXPENSES</b> – note 13	<b>1,281,484</b>	1,440,943	<b>4,620,041</b>	4,597,969
<b>GROSS PROFIT</b>	<b>₱ 2,559,245</b>	₱ 2,305,551	<b>₱ 6,359,213</b>	₱ 6,074,624
<b>OPERATING EXPENSES</b> – note 14	<b>6,235,958</b>	4,270,131	<b>17,733,638</b>	14,729,756
<b>OTHER INCOME (EXPENSES)</b>	<b>(3,144)</b>	4,117	<b>(22,881)</b>	4,117
<b>INCOME (LOSS) BEFORE TAX</b>	<b>(₱3,679,857)</b>	(₱ 1,960,463)	<b>(₱11,397,306)</b>	(₱ 8,651,015)
<b>INCOME TAX EXPENSE (CURRENT)</b>	<b>( 79,713)</b>	( 45,758)	<b>( 380,424)</b>	( 69,594)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(₱3,759,570)</b>	(₱ 2,006,221)	<b>(₱11,777,730)</b>	(₱ 8,720,609)
<b>LOSS PER SHARE</b> – note 21	<b>(₱ 0.0011)</b>	(₱ 0.0006)	<b>(₱ 0.0036)</b>	(₱ 0.0027)

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the period covered ending September 30, 2015 and 2014**

	Unaudited September 30 2015	Unaudited September 30 2014	Audited December 31 2014
<b>CAPITAL STOCK</b>	<b>₱3,276,045,637</b>	<b>₱3,276,045,637</b>	<b>₱3,276,045,637</b>
<b>ADDITIONAL PAID IN CAPITAL</b>	<b>24,492,801</b>	<b>24,492,801</b>	<b>24,492,801</b>
<b>DEFICIT</b>			
Balance - beginning of the period	(2,479,053,443)	(2,462,471,448)	<b>(2,462,471,448)</b>
Net loss for the period	( 11,777,730)	( 8,720,609)	<b>( 16,581,995)</b>
Balance - end of the period	(2,490,831,173)	( 2,472,242,220)	<b>(2,479,053,443)</b>
<b>TREASURY STOCK</b>	<b>( 10,000)</b>	<b>( 10,000)</b>	<b>( 10,000)</b>
<b>TOTAL EQUITY</b>	<b>₱ 809,697,265</b>	<b>₱ 828,286,218</b>	<b>₱ 821,474,995</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”

	September 30 2015	September 30 2014	Audited December 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax	(P11,397,306)	(P 8,651,015)	(P 16,419,839)
Adjustments for:			
Depreciation – notes 7 and 9	12,910,725	10,488,077	17,089,364
Finance costs – note 10	28,944	–	3,671
Provision for retirement benefits	–	–	41,700
Provision for income tax	–	–	–
Interest income – note 4	(6,063)	(4,117)	(7,358)
Operating income (loss) before working capital changes	1,536,300	1,832,945	707,538
Decrease (increase) in:			
Trade and other receivables	935,369	(401,694)	(703,822)
Prepaid taxes	(319,684)	(795,069)	(998,803)
Increase (decrease) in:			
Accounts payable and other current liabilities	4,198,714	5,028,309	399,513
Advances from lessees	273,167	–	198,000
Net cash from (used in) operations	6,623,866	5,664,491	(397,574)
Interest received	6,063	4,117	7,358
Prior period adjustment – property tax paid	–	(1,050,153)	–
Income tax paid	(380,424)	69,585	(507,072)
Net cash from (used in) operating activities	6,249,505	4,688,040	(897,288)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Advances to related parties – note 19	–	2,901,164	(15,062)
Collection of advances	1,790,010	–	4,526,668
Additions to property and equipment – note 9 and 24	–	–	(131,142)
Net cash generated from investing activities	1,790,010	2,901,164	4,380,464
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advances from related parties – note 18		(3,911,352)	362,548
Payment of advances	(7,024,044)	–	(1,970,776)
Payment of borrowings – note 10	( 107,793)	–	( 11,522)
Finance cost paid	( 28,944)	–	( 3,671)
Net cash from (used in) financing activities	(7,160,781)	(3,911,352)	(1,623,421)
<b>NET INCREASE (DECREASE) IN CASH</b>	878,734	3,677,852	1,859,755
<b>CASH - notes 2 and 5</b>			
At beginning of the period	3,319,324	1,459,569	1,459,569
At end of the period	<b>P 4,198,058</b>	<b>P 5,137,421</b>	<b>P 3,319,324</b>

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

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**Notes to Financial Statements**  
 September 30, 2015

**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 has two subsidiaries, Plastic City Industrial Corporation (PCIC) and Philfoods Asia, Inc. (collectively referred to herein as the “Group”).

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 ₱2,490,831,173, ₱2,472,242,220 and ₱2,479,053,443 as at September 30, 2015, September 30, 2014 and December 31, 2014, 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.

A meeting of the creditors and debtors for purposes of electing a liquidator was scheduled for June 29, 2015. However, the election did not proceed as the other creditors failed to appear. In view thereof, the meeting for the election of liquidator was rescheduled to August 4, 2015, and, thereafter further rescheduled for November 23, 2015.

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

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, 2014.

*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, 2014.

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, 2014.



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, 2014.

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, 2014.

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, 2014.

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 amendment 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's 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, 2014.

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 choose 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 method 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, as at December 31 of each year.

Subsidiaries	Principal Activity	Ownership	
		Sept 30 2015	Sept 30 2014
<b>Direct Ownership</b>			
Philfoods Asia, Incorporated (Philfoods)	Manufacturing	100%	100%
Plastic City Industrial Corporation (PCIC)	Manufacturing	100%	100%
<b>Indirect Ownership (Subsidiaries of PCIC)</b>			
Inland Container Corporation (ICC)	Manufacturing	100%	100%
Kennex Container Corporation (KCC)	Manufacturing	100%	100%
MPC Plastic Corporation (MPC)	Manufacturing	100%	100%
Pacific Plastic Corporation (PPC)	Manufacturing	100%	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	100%	100%
Weltex Industries Corporation (WIC)	Manufacturing	100%	100%

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

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

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

a) Direct ownership

*Philfoods*

Philfoods started commercial operations in 2000 and was suspended in 2002. Management is looking for possible partners to operate its facilities.

*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.

### *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.

## **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 September 30, 2015 and 2014, 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 September 30, 2015 and 2014, 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 September 30, 2015 and 2014, 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 recognition 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 September 30, 2015 and 2014 amounted to ₱180,598,058 and ₱184,492,563, 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 September 30, 2015 and 2014 are as follows:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Property and equipment - note 9	<b>₱ 66,435,598</b>	₱ 82,280,316
Investment properties - note 7	<b>94,659,338</b>	97,719,490
	<b>₱ 161,094,936</b>	<b>₱ 179,999,806</b>

### *(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 ₱952,717,871 as at September 30, 2015 and 2014 (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 September 30, 2015 and 2014, amounted to ₱500,400 and ₱458,700, 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 September 30, 2015 and 2014, the Group's deferred tax assets with full valuation allowance are fully disclosed in Note 18.

**4. CASH**

Cash as at **September 30** are as follows:

	<b>2015</b>	2014
Cash on hand	<b>₱ 20,000</b>	₱ 20,000
Cash in bank	<b>4,178,058</b>	5,117,421
	<b>₱4,198,058</b>	₱ 5,137,421

Cash in banks earn interest at the respective bank deposit rates. No restriction is attached to the Company's cash.

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

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

	<b>2015</b>	2014
Trade	<b>₱1,568,880</b>	₱ 1,732,367
Receivable from related parties - note 19	<b>—</b>	330,556
	<b>1,568,880</b>	2,062,933
Allowance for doubtful accounts	<b>—</b>	—
	<b>₱ 1,568,880</b>	₱ 2,062,933

Trade receivables include rental receivables amounting to ₱1,113,493 and ₱1,595,060 as at September 30, 2015 and 2014, 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 September 30, 2015 and 2014 are not held as collateral for its liabilities and are free from any encumbrances.

## 6. PREPAID TAXES

Prepaid taxes as at **September 30** are as follows:

	2015	2014
Creditable withholding tax	₱ 7,833,412	₱ 7,534,186
Creditable input tax	935,253	711,061
	<b>₱ 8,768,665</b>	<b>₱ 8,245,247</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 September 30, 2015 and 2014, 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 September 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	-	-	2,299,191	2,299,191
At end of year	-	3,290,824	70,010,316	73,301,140
<b>Accumulated impairment loss</b>				
At beginning and end of year	398,104,235	-	147,509,596	545,613,831
<b>Net carrying amounts, September 30, 2015</b>	<b>₱601,855,500</b>	<b>₱ -</b>	<b>₱94,659,338</b>	<b>₱696,514,838</b>

Details of investment properties as at September 30, 2014 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
Disposal	-	-	-	-
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	65,411,626	68,702,450
Depreciation	-	-	1,538,538	1,538,538
At end of year	-	3,290,824	66,950,164	70,240,988
<b>Accumulated impairment loss</b>				
At beginning and end of year	398,104,235	-	147,509,596	545,613,831
<b>Net carrying amounts, September 30, 2014</b>	<b>₱ 601,855,500</b>	<b>₱ -</b>	<b>₱ 97,719,490</b>	<b>₱ 699,574,990</b>

Rental income earned on the above investment properties amounted to ₱10.9 million and ₱10.6 million as of the quarters ended September 30, 2015 and 2014, respectively. While direct operating expenses incurred on the buildings such as repairs and maintenance, security, insurance and property tax, and depreciation expenses amounted to ₱4.6 million for September 30, 2015 and 2014, respectively, shown under "Direct costs and expenses" in the statements of comprehensive income (see Note 13).

The fair value of the Group's land as at December 31, 2012 were determined to be lower than its cost based on the recent appraisal of the property conducted by an independent firm of appraisers on December 15, 2012. Accordingly, the Company recognized impairment loss on

land amounting to ₱241,103,385 (see Note 15). The fair value of land is determined using the market data approach, in which the value of land is based on sales, listings and other market data of the comparable properties registered within the vicinity where the land is located.

The latest appraisal on the Group's building and improvements was on April 8, 2009 by independent appraisers in which the aggregate fair value of buildings and improvement was above its cost, and accordingly recovery of previously recognized impairment loss of ₱16,050,697 was recognized in 2009. The fair value is determined using the combination of cost and market approach.

The Group assess that the change in the fair market value of land improvement and building and improvement as at December 31, 2013, in reference to appraised value in 2012, is insignificant based on existing zoning classification, market condition and physical condition that would require reassessment of the investment properties fair values.

The Group's land with aggregate carrying amount of P358,296,000 as at September 30, 2015 and 2014 are subject properties under the MOA with ALC as disclosed in Note 22. Under the terms of the MOA the Group shall transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances. Pursuant to these terms, the Group has contracted a third party for the demolition of certain buildings located in the subject properties. The demolition is divided into several phases of properties which are expected to be completed within 4 months. As at December 31, 2013, the Group has recognized loss on write-off of buildings and improvements ₱13,718,316 which pertains to the carrying value of demolished buildings (see Note 15). Total cost of demolition incurred amounted to ₱408,614, net of scrap sales amounting to ₱2,595,628.

Land with an aggregate carrying amount of ₱254,091,000 as at September 30, 2015 and 2014, respectively, are mortgaged with PNB to secure the loans obtained by related parties (Note 19).

## 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.

Based on the appraisal of the property conducted by an independent firm of appraisers on December 15, 2012, the Group recognized impairment loss on land amounting to ₱150,325,350 (see Note 15). The fair value of investment in a joint venture is determined using the market data approach, in which the value of land is based on sales, listings and other market data of the comparable properties registered within the vicinity where the land is located. The Group's land is carried at cost, less accumulated impairment loss. As at September 30, 2015 and 2014, the Group believes that the carrying amount of the said land is higher than its fair value.

The carrying amount of joint venture asset is as follows:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Cost</b>		
At beginning and end of year	<b>₱ 600,408,111</b>	₱ 600,408,111
<b>Accumulated impairment loss</b>		
At beginning and end of year	<b>207,224,954</b>	207,224,954
<b>Net carrying amounts</b>	<b>₱ 393,183,157</b>	₱ 393,183,157

The Company has no revenue and expenses to be recognized in relation to the joint venture for the quarters ended September 30, 2015 and 2014.

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

The reconciliation of property and equipment as at September 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	650,522,884
Depreciation	107,670	10,480,434	12,648	10,782	10,611,534
Balance at end of year	7,724,318	628,826,860	14,357,883	10,327,519	661,134,418
<b>Impairment loss</b>					
Balance at beginning and end of year	7,069,958	192,706,966	–	–	199,879,086
<b>Net carrying amounts, September 30, 2015</b>	<b>₱ 4,104,719</b>	<b>₱ 61,753,250</b>	<b>₱ 577,629</b>	<b>₱ –</b>	<b>₱ 66,435,598</b>

The reconciliation of property and equipment as at September 30, 2014 as follows:

	Building and improvements	Machinery and equipment	Tools and equipment	Furniture and fixtures	Total
<b>Cost</b>					
At beginning and end of year	₱ 19,840,939	₱ 883,287,076	₱ 14,328,370	₱ 10,327,519	₱ 927,783,904
<b>Accumulated depreciation</b>					
At beginning of year	7,509,102	606,972,687	14,328,370	10,197,594	639,007,753
Depreciation	108,045	8,055,240	–	16,983	8,180,268
Balance at end of quarter	7,617,147	615,027,927	14,328,370	10,214,577	647,188,021
<b>Impairment loss</b>					
Balance at beginning and end of year	7,069,958	191,143,447	–	102,162	198,315,567
<b>Net carrying amounts, September 30, 2014</b>	<b>₱ 5,153,834</b>	<b>₱ 77,115,702</b>	<b>₱ –</b>	<b>₱ 10,780</b>	<b>₱ 82,280,316</b>

Total depreciation allocated to operation amounted to ₱3,518,769 and ₱2,726,756 for the third quarter of 2015 and 2014, 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 ₱590,277 as at December 31, 2014 was used as collateral to secure payment of borrowings (see Note 10).

Impairment loss on property and equipment was determined based on appraisal of properties conducted on April 8, 2009 by an independent firm of appraisers. The fair value at the time of appraisal was determined by reference to market transactions on arm's length terms using the cost and market data or direct sales comparison approach.

In 2013, management assessed that the fair value less cost to sell 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 to ₱63,790,634 was recognized in 2013 (see Note 15).

## 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 **September 30** consist of:

	2015	2014
Current	₱ –	₱ –
Non-current	<b>356,685</b>	–
	<b>₱ 356,685</b>	₱ –

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

Finance costs charged to operations amounted to ₱28,945 for the quarter ended September 30, 2015.

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 **September 30** are as follows:

	2015	2014
Accounts payable	<b>₱14,602,367</b>	₱14,712,723
Accounts payable – affiliates (note 17)	<b>9,276,110</b>	14,182,525
Value added tax and other taxes payable	<b>1,498,384</b>	684,693
Deferred rental – note 21	<b>1,359,583</b>	2,222,572
Other payables	<b>106,690</b>	127,426
	<b>₱26,843,134</b>	₱31,929,939

Interest payable represents accrual of interest on outstanding balance of restructured loans.

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:

	2014	2013	2012
Issued – 3,276,045,637 shares	<b>₱ 3,276,045,637</b>	₱ 3,276,045,637	₱ 3,276,045,637
Treasury shares – 10,000 shares	<b>( 10,000)</b>	( 10,000)	( 10,000)
	<b>₱ 3,276,035,637</b>	₱ 3,276,035,637	₱ 3,276,035,637

### *Track record of registration of securities*

The Parent Company was originally registered as 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, 2015, 2014 and 2013, the Parent Company has outstanding 3,271,937,380 3,271,933,380 and 3,271,933,300 shares under its name. Remaining unconverted shares under REDECO as at December 31, 2014, 2013 and 2012, is 4,108,257, 4,108,257 and 4,112,347, respectively. Outstanding shares owned by the public as at December 31, 2014, 2013 and 2012, 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>September 30, 2015</b>	<b>₱0.228</b>
September 30, 2014	0.215
September 30, 2013	0.224

#### *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 **September 30** are as follows:

	2015		2014	
	Jul – Sept	Jan – Sept	Jul – Sept	Jan – Sept
Depreciation - note 7	₱ 766,398	₱ 2,299,191	₱ 769,269	₱ 2,307,807
Security services	515,086	2,245,261	671,674	2,290,162
Repairs and maintenance	–	75,589	–	–
	<b>₱ 1,281,484</b>	<b>₱ 4,620,041</b>	<b>₱1,440,943</b>	<b>₱4,597,969</b>

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

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

	2015		2014	
	Jul – Sept	Jan – Sept	Jul – Sept	Jan – Sept
Professional fees	<b>₱1,445,613</b>	<b>₱2,997,613</b>	₱ 592,500	₱ 2,246,202
Salaries and wages	<b>378,166</b>	<b>1,393,734</b>	525,432	1,675,943
Depreciation	<b>3,518,769</b>	<b>10,611,534</b>	2,726,756	8,180,268
Rent, light and water	<b>315,957</b>	<b>819,204</b>	89,036	709,393
Taxes and licenses	<b>258,980</b>	<b>714,286</b>	78,125	618,417
Commission	<b>189,372</b>	<b>379,126</b>	99,194	355,796
SSS, Medicare and benefits	<b>36,046</b>	<b>106,124</b>	72,929	117,320
Others	<b>93,055</b>	<b>712,017</b>	86,159	826,417
	<b>₱ 6,235,958</b>	<b>₱ 17,733,638</b>	₱ 4,270,131	₱ 14,729,756

#### 15. **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:

	2015	2014	2013
Balance at beginning of year	<b>₱ 500,400</b>	₱ 458,700	₱ 664,660
Retirement provision	-	41,700	41,700
Benefits paid	-	-	( 247,660)
Balance at end of year	<b>₱ 500,400</b>	₱ 500,400	₱ 458,700

The provision for retirement benefits in 2015 and 2014 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.

#### 16. **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 ₱75,999, ₱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.

#### 17. **RELATED PARTY TRANSACTIONS**

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



Category	Amount/Volume		Outstanding Receivable		Terms	Conditions
	Sept 30 2015	Sept 30 2014	Sept 30 2015	Sept 30 2014		
<b>Receivable from related parties with common key management</b>						
Genwire Manufacturing Corp. (GMC)	₱ -	(₱ 295,413)	₱ -	₱ 330,566	(a)	Unsecured, no impairment
Concept Moulding Corp. (CMC)	-	-	-	-	(a)	Unsecured, no impairment
	<b>₱ -</b>	<b>(₱ 295,413)</b>	<b>₱ -</b>	<b>₱ 330,566</b>		

Category	Amount/Volume		Outstanding Receivable		Terms	Conditions
	Sept 30 2015	Sept 30 2014	Sept 30 2015	Sept 30 2014		
<b>Advances to related parties with common key management</b>						
Metro Alliance Holdings and Equities Corp. (MAHEC)	₱ -	₱ -	₱105,060,000	₱105,060,000	(b)	Unsecured, no impairment
The Wellex Group, Inc. (TWGI)	(3,428,162)	(2,916,226)	70,770,615	74,198,777	(b)	Unsecured, no impairment
Wellex Petroleum, Inc. (WPI)		15,062	2,294,809	2,267,217	(b)	Unsecured, no impairment
	27,592					
	(3,400,570)	(2,901,164)	178,125,424	181,525,994		
Allowance for impairment	-	-	(56,413,260)	( 56,413,260)		
	<b>(₱3,400,570)</b>	<b>(₱2,901,164)</b>	<b>₱121,712,282</b>	<b>₱125,112,734</b>		

Category	Amount/Volume		Outstanding Payable		Terms	Conditions
	Sept 30 2015	Sept 30 2014	Sept 30 2015	Sept 30 2014		
<b>Payable to related parties with Common key management</b>						
International Polymer Corp. (IPC)	₱4,906,415	₱1,870,719	₱9,276,110	₱ 14,182,525	(c)	Unsecured
Plastic City Corp. (PCC)	-	-	-	-	(c)	Unsecured
	<b>₱4,906,415</b>	<b>₱1,870,719</b>	<b>₱9,276,110</b>	<b>₱ 14,182,525</b>		

<b>Advances from related parties with Common key management</b>						
Diamond Stainless Corp. (DSC)	₱ -	₱ -	₱132,846,332	₱132,846,332	(d)	Unsecured
Plastic City Corp. (PCC)	313,260	-	86,302,636	85,989,376	(d)	Unsecured
Philippine Estates Corp. (PHES)	(88,793)	-	27,707,598	27,796,391	(d)	Unsecured
International Polymer Corp. (IPC)	4,361,094	-	32,018,085	27,656,991	(d)	Unsecured
Kenstar Industrial Corp. (KIC)	-	-	23,539,858	23,539,858	(d)	Unsecured
Rexlon Realty Corp. (RIC)	-	-	23,187,370	23,187,370	(d)	Unsecured
Pacific Rehouse Corp. (PRC)	-	-	15,540,753	15,540,753	(d)	Unsecured
Ropeman	-	-	8,101,207	8,101,207	(d)	Unsecured
Asia Pacific Corp. (APC)	-	-	4,046,257	4,046,257	(d)	Unsecured
Concept Moulding Corp. (CMC)	-	-	1,220,105	3,102,088	(d)	Unsecured
	(1,881,983)					
	<b>2,703,578</b>	<b>-</b>	<b>354,510,092</b>	<b>351,806,514</b>		
<b>Advances from stockholders /key management</b>						
Key management and officers	(3,112,692)	( 3,911,352)	155,797,894	158,910,586	(e)	
	<b>(₱409,114)</b>	<b>(₱3,911,352)</b>	<b>₱510,307,986</b>	<b>₱510,717,100</b>		

(a) *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.

(b) *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 September 30, 2015 and 2014, amounted to ₱120,000, and ₱120,000, respectively, shown under 'Professional fees' account in the consolidated statements of comprehensive income (see Note 14). The agreement will expire on April 30, 2016.
- 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 and utilities incurred for the quarters ended September 30, 2015 and 2014, amounted to ₱55,500 and ₱55,500, respectively, as shown in the consolidated statements of comprehensive income (see Note 14).

The Group originally provides allowance for impairment amounting to ₱56,413,260 as at September 30, 2015 and 2014 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 provided 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.

#### *(c) 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.

#### *(d) 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.

*(e) Collateral properties held by related parties*

As at September 30, 2015 and 2014, the Group's investment properties with a carrying amount of ₱254.09 million were used as collateral to secure loans obtained by related parties (see Note 7).

*(f) Other transaction with key management*

Directors' fees paid for the quarter ended September 30, 2015 and 2014 and year ended December 31, 2014 amounted to ₱44,444, ₱55,555 and ₱44,444, respectively.

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

**18. BUSINESS SEGMENT INFORMATION**

a) Segment information

The Group's operating business segment are organized and managed separately according to business activities. The Group's management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group's financing which includes finance cost, impairment of assets and income taxes are managed on a group basis and are not allocated to operating segments.

The Group has no geographical segment for segment reporting format as the Group's risks and rates of return are in the same economic and political environment, with the Group is incorporated and operating in the Philippines.

The Group has only one operating segment representing the Group's leasing activity on its idle properties as warehouses to third parties. Operating segments excludes discontinued operations of the manufacturing operation, mining and oil exploration representing the Parent Company which is under development. The Parent Company does not earn revenue or may earn revenue that is only incidental to activities such as interest income.

As at September 30, 2015 and 2014, the Group has no intersegment revenue to be reported.

b) Entity-wide information

The Group is domiciled in the Philippines. All revenues generated are from the Philippines. The revenue shown above represents the total Group's revenue from lease of real properties.

As at September 30, 2015 and 2014, the Group has no financial assets reported in the total non-current assets.

**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 ₱2,173,748 and ₱1,702,581 as at September 30, 2015 and 2014, respectively. Deferred rental income relative to the lease amounted to ₱1,359,583 as at September 30, 2015 and

₱2,222,572 as at September 30, 2014 as shown under 'Accounts payable and other liabilities' account (see Note 11).

The future minimum rental income is as follows:

	September 30	
	2015	2014
Due not later than one year	<b>₱2,699,539</b>	<b>₱876,672</b>
Due more than one year but not more than three years	-	-
	<b>₱2,699,539</b>	<b>₱876,672</b>

The carrying amount of the buildings being leased out is ₱696,514,838 and ₱699,574,990 as at September 30, 2015 and 2014, respectively.

Outstanding balance of receivable from tenants as at September 30, 2015 and 2014 amounted to ₱1,113,493 and ₱2,052,474, respectively (see Note 5). Total rental income is ₱10,979,254 and ₱10,672,593 in September 30, 2015 and 2014, 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 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 Note 7).

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. PPC recognized loss on sale amounting to ₱18,747,000 in 2012 (see Note 15).

Details of installment contract receivable as at September 30, 2015 and 2014 are as follows:

	2015	2014
<b>Current</b>		
Due after 1 year	<b>₱ 38,211,264</b>	₱ 38,211,264
<b>Noncurrent</b>		
Due on the second year	<b>19,105,632</b>	19,105,632
Due on the third year	-	-
	<b>19,105,632</b>	19,105,632
	<b>₱ 57,316,896</b>	₱ 57,316,896

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

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

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

As at September 30, 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 **September 30**:

	2015		2014	
	Jul – Sept	Jan – Sept	Jul – Sept	Jan – Sept
Consolidated net loss for the year	<b>₱ 3,759,570</b>	₱11,777,730	₱ 2,006,221	₱ 8,720,609
Weighted average number of common shares outstanding during the year	<b>3,276,045,637</b>	3,276,045,637	3,276,045,637	3,276,045,637
Loss per share	₱ 0.0011	₱ 0.0036	₱ 0.0006	₱ 0.0027

## 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 P375 million. In 2003, SSS foreclosed the asset mortgaged in the amount of ₱198,639,000.

The Parent Company filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of ₱500 million. The case is pending before the Regional Trial Court of Quezon City as at September 30, 2015 and 2014.

The case was submitted for decision on December 2014. A decision was issued on January 12, 2015 where the contract of loan and real estate mortgage were declared null and void. Thus, WPI was directed to return the amount of ₱375 million to SSS and for SSS to return the properties and shares used as collateral.

The Group's filed several collection cases with third parties for the claims of certain amounts. Decisions were already reached by the court for collection of the sum of ₱1,476,534, however, execution was pending as at September 30, 2015 and 2014.

## 23. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Non-cash financing and operating activities consist of:

	2015	2014	2013
Addition to property and equipment under installment contract	₱ –	₱ 476,000	₱ –
Settlement of borrowings through advances from PCC	–	–	–
	<b>₱ –</b>	<b>₱ 476,000</b>	<b>₱ –</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:

	September 30	
	2015	2014
Cash, excluding cash on hand – note 4	₱4,178,058	₱5,117,421
Trade and other receivables, at net amount - note 5	1,568,880	2,062,933
Installment contract receivable – note 22	57,316,896	57,316,896
Advances to related parties, at gross amount - note 17	178,125,424	181,525,994
	<b>₱241,189,258</b>	<b>₱246,023,244</b>

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 September 30, 2015 and 2014, 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:

September 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	₱4,198,058	₱ -	₱ -	₱ -	₱ -	₱4,198,058
Receivables from:						
Trade	1,113,493	223,895	231,492	-	-	1,568,880
Related parties	-	-	-	-	-	-
Others	-	-	-	-	-	-
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	121,712,164	56,413,260	178,125,424
	<b>₱62,628,447</b>	<b>₱223,895</b>	<b>₱231,492</b>	<b>₱121,712,164</b>	<b>₱56,413,260</b>	<b>₱241,209,258</b>

September 30, 2014						
	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	₱ 5,137,421	₱ -	₱ -	₱ -	₱ -	₱ 5,137,421
Receivables from:						
Trade	1,428,063	100,570	183,620	20,114	-	1,732,367
Related parties	330,566	-	-	-	-	330,566
Others	-	-	-	-	-	-
Installment contract receivable	38,211,264	-	-	19,105,632	-	57,316,896
Advances to related parties	-	-	-	125,112,734	56,413,260	181,525,994
	<b>₱45,107,314</b>	<b>₱ 100,570</b>	<b>₱ 183,620</b>	<b>₱ 144,238,480</b>	<b>₱ 56,413,260</b>	<b>₱ 246,043,244</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 September 30, 2015 and 2014, 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.

September 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	₱ –	₱ 25,344,750	₱ –	₱ 25,344,750
Advances from related parties	510,307,986	–	–	510,307,986
Advances from lessees	–	2,173,748	–	2,173,748
	<b>₱ 510,307,986</b>	<b>₱ 27,518,498</b>	<b>₱ –</b>	<b>₱ 537,826,484</b>

  

September 30, 2014	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	₱ –	₱ 31,245,246	₱ –	₱ 31,245,246
Advances from related parties	510,717,100	–	–	510,717,100
Advances from lessees	–	1,702,581	–	1,702,581
	<b>₱ 510,717,100</b>	<b>₱ 32,947,827</b>	<b>₱ –</b>	<b>₱ 543,664,927</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:

	September 30, 2015		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets classified as loans and receivables</b>				
Cash, excluding cash on hand	₱4,178,058	₱4,178,058	₱ 5,117,421	₱ 5,117,421
Trade and other receivables	1,568,880	1,568,880	2,062,933	2,062,933
Installment contract receivable	57,316,896	57,316,896	57,316,896	57,316,896
Advances to related parties	121,712,282	121,712,282	125,112,734	125,112,734
	<b>₱184,776,116</b>	<b>₱184,776,116</b>	<b>₱189,609,984</b>	<b>₱189,609,984</b>

	September 30, 2015		September 30, 2014	
	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	₱25,344,750	₱ 25,344,750	₱ 31,245,246	₱ 31,245,246
Advances from related parties	510,307,986	510,307,986	510,717,100	510,717,100
Advances from lessees	2,173,748	2,173,748	1,702,581	1,702,581
	<b>₱537,826,484</b>	<b>₱537,826,484</b>	<b>₱543,664,927</b>	<b>₱543,664,927</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 September 30, 2015 and 2014, 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 2015, the Group's strategy, which was unchanged from 2014, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at September 30, 2015 and 2014 were as follows:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Accounts payable and other liabilities	<b>₱26,843,134</b>	₱31,929,939
Advances from lessees	<b>2,173,748</b>	1,702,581
Advances from related parties	<b>510,307,986</b>	510,717,100
Retirement benefits obligation	<b>500,400</b>	458,700
Gross debt	<b>539,825,268</b>	544,808,320
Cash	<b>(4,198,058)</b>	( 5,137,421)
Net debt	<b>535,627,210</b>	539,670,899
Total equity	<b>809,697,265</b>	828,286,218
Total capital	<b>₱1,345,324,475</b>	₱1,367,957,117
Gearing ratio	<b>39.8%</b>	39.5%

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

**27. RECLASSIFICATION**

Certain accounts in 2015 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.

\* \* \*

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
September 30, 2015

	<b>September 30</b>	September 30	December 31
	<b>2015</b>	2014	2014
<b>Profitability Ratios:</b>			
Return on assets	<b>Nil</b>	Nil	Nil
Return on equity	<b>Nil</b>	Nil	Nil
Net profit margin	<b>Nil</b>	Nil	Nil
<b>Solvency and liquidity ratios:</b>			
Current ratio	<b>247.62%</b>	159.54%	290.10%
Debt to equity ratio	<b>66.71%</b>	65.78%	66.08%
<b>Financial leverage ratios:</b>			
Asset to equity ratio	<b>166.71%</b>	165.78%	166.08%
Debt to asset ratio	<b>40.02%</b>	39.68%	40.00%
Interest rate coverage ratio	<b>Nil</b>	Nil	Nil

