

**COVER SHEET**

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SEC Registration No.

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

(Company's Full Name)

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

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

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

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

**Atty. Mariel L. Francisco**

Contact Person

**(02) 706-7888**

Contact Telephone No.

1 2 3 1

Fiscal Year

1 7 - Q

FORM TYPE

Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles  
Number/Section

Total Amount of Borrowings

**1,000**

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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Cashier

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Remarks = pls. use black ink for scanning purposes

**3<sup>rd</sup> QUARTER REPORT: WIN**

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

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

1. For the Quarterly Period ended **September 30, 2022**
2. SEC Identification Number: **11790**
3. BIR Tax Identification No.: **003-946-426-000**
4. **WELLEX INDUSTRIES, INCORPORATED**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
(Province, country or other jurisdiction of incorporation or organization)
6. (SEC Use only)  
Industry Classification Code
7. **35<sup>th</sup> Flr. One Corporate Center, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig**  
Address of principal office
8. **Telephone No. (02) 8706-7888**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address, and former fiscal year, if changed since last report.

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

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding: and Amount of Debt Outstanding</u>
Common Shares – ₱1.00 par value	Issued - ₱3,271,952,740

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [  ]                      No. [  ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The

Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ x ]                      No [ ]

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

Yes [ x ]                      No [ ]

13. The aggregate market value of the voting stock held by non-affiliates: ₱398,260,527

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.4, and the accompanying notes to financial statements

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

	Amounts in PhP			
	Jul-Sep, 2022	Jul-Sep, 2021	Jan-Sep, 2022	Jan-Sep, 2021
<b>Income Statement</b>				
Rental Income	₱4,866,269	₱4,943,696	₱14,806,394	₱19,067,904
Direct Costs and Expenses	2,996,139	1,903,966	9,032,354	5,115,023
Gross Profit	1,870,130	3,039,730	5,774,040	13,952,881
Operating Expenses	3,066,086	5,151,566	13,076,356	19,565,477
Loss from Operations	(1,195,956)	(2,111,836)	(7,302,316)	(5,612,596)
Other Income (Expense)	70,927	64,228	203,911	(561,125)
Finance Costs	-	-	-	-
Loss before Tax	(1,125,029)	(2,047,608)	(7,098,404)	(6,173,721)
Income Tax Expense	-	(84,288)	-	(879,729)
<b>Net Loss for the period</b>	<b>(1,125,029)</b>	<b>(2,131,896)</b>	<b>(7,098,404)</b>	<b>(7,053,449)</b>
<b>Loss per share</b>	<b>(₱0.0003)</b>	<b>(₱0.0007)</b>	<b>(₱0.0022)</b>	<b>(₱0.0022)</b>

	September 30, 2022	September 30, 2021	December 2021
<b>Balance Sheet</b>			
Current Assets	₱56,138,786	₱66,654,672	₱63,388,380
Noncurrent Assets	1,587,192,114	1,588,770,074	1,594,109,477
<b>Total Assets</b>	<b>1,643,330,900</b>	<b>1,655,424,746</b>	<b>1,657,497,857</b>
Current Liabilities	11,958,662	15,093,052	12,518,447
Noncurrent Liabilities	435,611,509	440,992,919	442,120,278
Stockholders' Equity	1,195,760,729	1,199,338,775	1,202,859,132
<b>Total Liabilities and Equity</b>	<b>₱1,643,330,900</b>	<b>₱1,655,424,746</b>	<b>₱1,657,497,857</b>

#### **Quarter ended September 30, 2022 as compared with quarter ended September 30, 2021**

As of the quarter ending September 30, 2022, the company continues to lease out its warehouse facilities. Total revenue recorded for the 3rd quarter of 2022 amounted to ₱4.9 million as compared to the same quarter of 2021 amounting to ₱4.9 million. Number of areas being leased out for the 3rd quarter of 2022 is lesser than the last 3<sup>rd</sup> quarter of 2021.

Income/(Loss) per share comparison for the quarter ended September 30, 2022 and 2021 were (₱0.0003) and (₱0.0007), respectively.

As of September 30, 2022, there are fourteen (13) companies leasing inside the PCIC compound occupying twenty (16) areas. List of companies are as follows:

	TENANTS	CO.	Area in Sqm	Contract Period	3rd Qtr Rent Income (in Php)
1	SMYPC - MANILA GLASS PLANT - bldg 22-A	ICC	1,134	01/01/22-12/31/22	318,938
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	ICC	1,134	01/01/22-12/31/22	318,938
3	CRISTINE GUEVARRA - bldg 34A	ICC	2,000	10/01/21-09/30/22	240,000
4	JESSIE LYN TAJALE - bldg 44	ICC	2,800	01/01/22-12/31/22	750,000
5	GRACEFUL LOGISTICS - open space 10	ICC	2,000	05/15/22-05/14/23	330,000
6	STA RITA 168 BUILDERS CORP – open space 9	ICC	2,260	02/01/22-01/31/23	305,100
7	OYTANA TRUCKING AND LOGISTICS INC.	KCC	1,000	06/01/22-05/31/23	165,000
8	SAN MIGUEL BREWERY INC - bldg 23	PPC	3,105	05/01/22 - 04/30/23	831,696
9	SAN MIGUEL BREWERY INC - shipping yard	PPC	1,430	05/01/22 - 04/30/23	236,250

10	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	PPC	1,500	04/01/22 - 03/31/23	247,815
11	JHSA CORP (formerly Big Thumb Ent - bldg 23 open space)	PPC	35	01/01/22 - 12/31/22	15,000
12	GOCHEMBROS CORP - bldg 26 (formerly Goeng mktg)	PPC	524	01/01/22 - 12/31/22	147,375
13	FUDSOURCE CORPORATION - bldg 19	PPC	1,050	01/15/22 - 01/15/23	295,313
14	HIGANTIS CONTRACTOR CORP - bldg 18	PPC	698	08/01/22 - 07/31/23	195,238
15	RDB TECSON & ASSOCIATES - bldg 24	PPC	1,476	04/01/22 - 03/31/23	434,893
16	RDBT CONSTRUCTION CORP - bldg 24 open space	PPC	216	04/01/22 - 03/31/23	34,714

Direct cost and operating expenses for the 3rd quarter of 2022 totaled ₱6.1 million as compared to ₱7.1 million for the 3rd quarter of 2021 or a decrease of ₱1.0 million or 14.08%. The amount was recorded and mainly attributable to the following:

1. Direct cost for the 3rd quarter of 2022 and 2021 consists of security services, depreciation expense, property taxes and repairs and maintenance. Total direct cost recorded for the third quarter of 2022 amounted to ₱3.0 million and ₱1.9 million for the third quarter of 2021. The increase is mostly attributable by the increase in security services by ₱1.1 million, increase in payment of property tax by ₱1.1 million and decrease of repairs and maintenance by ₱1.1 million.
2. Operating expenses for the 3rd quarter 2022 decrease by ₱2.1 million or 40.48% as compared to the 3rd quarter of 2021, which resulted by the following movements: increase in depreciation by ₱52,657, decrease in professional fee by ₱115,000 million, increase in salaries and wages by ₱92,655, decrease in taxes and licenses by ₱905,397, increase in light and water by ₱68,562, decrease in commission by ₱88,742, increase in SSS, Medicare and EC contributions by ₱1,014 and decrease in other remaining expenses by ₱1.2 million.

Other Income (Expenses) consist of interest income, other income, penalties and surcharges and interest expense. Total Other Income (Expenses) for the 3rd quarter 2022 and 2021 is ₱70,927 and ₱64,228, respectively.

The Group does not recognize a Finance cost for 3rd quarter 2022 and 2021.

### **Performance Indicators**

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

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the third quarter of 2022, the company has an average of ₱374,328 rental income per tenant or an increase by ₱21,207 rental income per tenant or 6.01% as compared to third quarter of 2021.
2. Receivables - the company assesses collection of receivables and management of credit by determining the past due ratio done thru the aging of receivables. For the third quarter of 2022, ratio of past due receivables to total outstanding was 99.18%. The current quarter exceeds the management gauge on past due receivables due to significant number of receivables from third parties which are no longer operating. These third parties are previous subsidiary of the Group.
3. Gross Profit Margin - this is derived by dividing the gross profit over the revenues amount. The third quarter of 2022 has a gross profit margin of 38.43%, lower by 23.06% than the 3rd quarter of 2021. Decrease pertains to lower sales and higher expenses incurred for the current quarter.
4. Working Capital – to meet the obligations of the company, it is measured by determining current assets over current obligations. Working capital ratio for third quarter of 2022 was 469.44% as compared to 441.62% on the third quarter of 2021. Increase is attributable to decrease in current assets to ₱10.5 million or 15.78% and decrease in current liabilities by ₱3.1 million or 20.77%.
5. Advances by the Affiliates - For the third quarter of 2022, the company has total advances from affiliates amounting to ₱434.4 million or a decrease of ₱5.1 million from last year's ₱439.4 million balance.

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

#### Cash

The Group's cash decreased by ₱3.9 million or 40.24% for the third quarter of 2022 as compared to third quarter 2021 due to the following activities: (a) net cash used in operating activities is ₱1.0 million, (b) net cash generated in investing activities is ₱4.0 million and (c) net cash used in financing activities ₱3.8 million.

#### Trade and Other Receivables

Trade and other receivables (net) decrease by ₱8.6 million in the 3rd quarter of 2022 as compared to last 3rd quarter of 2021. This is mostly attributable to the decrease in advances to third parties by ₱10.5 million, decrease in rental receivables by ₱2.5 million and decrease in allowance for estimated credit losses by ₱4.4 million. Certain trade receivables were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (Note 23).

#### Prepayments and other current assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. The account increase in the third quarter of September 30, 2022 by ₱1.9 million or 12.25% due to increase in creditable withholding tax by ₱1.4 million, increase in input VAT by ₱0.5 million and decrease in prepaid expenses by ₱0.02 million.

#### Property and Equipment

There's a decrease in property and equipment amounting to ₱1.0 million or 47.88% on the third quarter of 2022 as compared to last year's third quarter 2021 due to additional depreciation recorded.

#### Deferred Asset and Liabilities

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's deferred asset account in the third quarter of 2022 decrease by ₱37,660 or 78.28% as compared to the third quarter of 2021. The Group also has deferred liabilities which was decrease by ₱36,461 or 79.17% in the third quarter of 2022 as compared to last year's third quarter of 2021.

#### Advances from lessees

Represent payment of advance rental which shall be refunded without interest on the expiration of the lease or pre-termination of the lease period. Advance rental for the 3rd quarter of 2022 decrease by ₱2.9 million or 46.82% due to expiration of the lease.

#### Lease liability

Lease liability composed of current and non-current portion. The current portion decrease by ₱76,761 or by 64.74% while the non-current portion increased by ₱41,806 or 100% in the third quarter of 2022.

#### Borrowing

The Group's borrowings consist of current portion and non-current portion. The Group recorded a current borrowing portion amounting to ₱97,326 and 118,559 for the third quarter of 2022 and 2021, respectively, with a decrease by ₱21,233 or 17.91% and non-current borrowing portion amounting to ₱413,082 and ₱759,002 for the third quarter of 2022 and 2021, respectively, with a decrease by ₱345,920 or 45.58%.

#### Income Tax Payable

The Group has an income tax payable in the third quarter of 2022 and 2021 amounting to nil and ₱282,781, respectively.

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

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

The Parent Company has properties in Rodriguez (formerly Montalban), Rizal, with an aggregate cost of ₱52,335,000 as at September 30, 2022 and 2021. Land was received in exchange for its shares of stock in accordance with stock-for-assets swap arrangement entered into with various affiliates.

Land with aggregate carrying amount of ₱6,484,935 as at September 30, 2022 and 2021, was under litigation (Note 21).

As at September 30, 2022 and 2021, the Parent Company's properties are not subject to any liens or encumbrances.

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

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

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

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

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

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

**(iv) Commitment for Capital Expenditures**

Since the Plastic City Industrial Corporation ceased in manufacturing and commercial operation there are no commitments on major capital expenditures.

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

The Group has ceased manufacturing operations since 2002 and currently disposed to lease out its warehouse facilities. Rental Income recorded for the third quarter 2022 compared to 2021 decrease by 1.57%.

As of September 30, 2022, there are thirteen (13) lessees occupying 16 areas such as the warehouses, shipyards, open spaces and extensions inside the Plastic City premise. Rental rates were increased to cover fixed and overhead expenses.

Current ratio (current assets over current liabilities) as of September 30, 2022 is 469.44% with current assets of ₱56.1 million over ₱12.0 million current liabilities. The Group's policy to address liquidity risk is to maintain a balance between continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees' premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

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

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

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

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

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

Please refer to the attached Annex A.1 to A.5.

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

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

**(ix) Financial Risk Disclosure**

The Group is exposed to a variety of financial risk which results from both its operating and financing activities. The Group's risk management is coordinated with the Board of Directors, and focuses on actively securing the short-term cash flows by minimizing the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. Please refer to Annex A.5.

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

*PFRS 9, Financial Instruments (2014)*. PFRS 9, Financial Instruments replaces PAS 39 Financial Instruments – Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The standard requires all recognized financial assets that are within the scope of PAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flow that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debts investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that are attributable to changes in the credit risk of that liability is presented in other comprehensive income would create or increase as accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The Company has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in changes in accounting policies and adjusted amounts recognized in the financial statements. The comparative figures have been restated to comply with the transitional provisions in PFRS 9.



## **PART II – OTHER INFORMATION**

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

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

		High	Low
2022	First Quarter	0.310	0.215
	Second Quarter	0.300	0.260
	Third Quarter	0.295	0.220
2021	First Quarter	0.280	0.214
	Second Quarter	0.335	0.235
	Third Quarter	0.315	0.250
	Fourth Quarter	0.280	0.230
2020	First Quarter	0.230	0.156
	Second Quarter	0.209	0.168
	Third Quarter	0.204	0.176
	Fourth Quarter	0.275	0.186
2019	Fourth Quarter	0.234	0.200

The price information as of November 11, 2022 was closed at ₱0.235.

### **(2) Holders**

The numbers of shareholders of record as of September 30, 2022 were 1,000. Common shares issued and subscribed as of September 30, 2022 were 3,271,952,740.

#### **List of Top 20 Stockholders As of September 30, 2022**

<b>STOCKHOLDER'S NAME</b>	<b>NATIONALITY</b>	<b>SUBSCRIBED</b>	<b>% TOTAL</b>
PCD NOMINEE CORP.	FILIPINO	931,005,225	28.454
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	6.438
ELVIRA A. TING	FILIPINO	111,850,000	3.418
KENNETH T. GATCHALIAN	FILIPINO	100,000,100	3.056
THE WELLEX GROUP, INC.	FILIPINO	80,000,000	2.445
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
ORIENT PACIFIC CORPORATION	FILIPINO	36,340,000	1.111
LI CHIH-HUI	FILIPINO	23,500,000	0.718
PCD NOMINEE CORPORATION (NON-FILIPINO)	OTHERS	12,269,020	0.375
WELLEX GLOBAL EQUITIES, INC.	FILIPINO	4,050,000	0.124
INTERNATIONAL POLYMER CORP.	FILIPINO	2,700,000	0.083
SOLAR SECURITIES, INC.	FILIPINO	2,500,000	0.076
RODOLFO S. ETRELLADO	FILIPINO	750,000	0.023
PROBITY SEC. MGT. CORP.	FILIPINO	463,200	0.014
RICHARD L. RICARDO	FILIPINO	460,000	0.014
REGINA CAPITAL DEVELOPMENT CORPORATION	FILIPINO	300,000	0.009

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

**ANNEX A.1**

		Unaudited 30-Sep-22	Unaudited 30-Sep-21	Audited 31-Dec-21
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	4	₱5,753,383	₱9,626,753	₱9,589,982
Trade and other receivables (net)	5	32,652,770	41,231,162	37,333,705
Prepayments and other current assets	6	17,732,632	15,796,757	16,464,693
		<b>56,138,786</b>	<b>66,654,672</b>	<b>63,388,380</b>
<b>Noncurrent Assets</b>				
Financial Assets at FVOCI	7	12,500,000	12,500,000	12,500,000
Advances to related parties (net)	18	26,602,883	27,377,809	30,582,214
Investment properties (net)	8	1,020,607,418	1,023,673,006	1,022,906,608
Interest in joint operation (net)	9	526,250,284	522,916,369	526,250,284
Property and equipment (net)	10	1,125,234	2,158,934	1,764,075
Deferred Asset		10,452	48,112	10,452
Other assets		95,844	95,844	95,844
		<b>1,587,192,114</b>	<b>1,588,770,074</b>	<b>1,594,109,477</b>
<b>TOTAL ASSETS</b>		<b>1,643,330,900</b>	<b>1,655,424,746</b>	<b>1,657,497,857</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts payable and other liabilities	11	8,473,888	8,282,173	5,763,830
Advances from lessees	19	3,345,642	6,290,973	6,327,584
Lease Liability	18	41,806	118,567	41,806
Borrowing	12	97,326	118,559	375,911
Income Tax Payable		-	282,781	9,316
		<b>11,958,662</b>	<b>15,093,052</b>	<b>12,518,447</b>
<b>Noncurrent Liabilities</b>				
Advances from related parties	18	434,396,532	439,395,454	440,905,301
Borrowing - noncurrent	12	413,082	759,002	413,082
Retirement benefits obligation	17	792,300	750,600	792,300
Lease Liability - noncurrent	18	-	41,806	-
Deferred Tax Liability		9,595	46,057	9,595
		<b>435,611,509</b>	<b>440,992,919</b>	<b>442,120,278</b>
<b>Equity</b>				
Capital stock	13	3,276,045,637	3,276,045,637	3,276,045,637
Additional paid-in capital	13	24,492,801	24,492,801	24,492,801
Deficit		(2,104,767,709)	(2,101,189,663)	(2,097,669,306)
		<b>1,195,770,729</b>	<b>1,199,348,775</b>	<b>1,202,869,132</b>
Treasury stock	13	(10,000)	(10,000)	(10,000)
		<b>1,195,760,729</b>	<b>1,199,338,775</b>	<b>1,202,859,132</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>₱1,643,330,900</b>	<b>₱1,655,424,746</b>	<b>₱1,657,497,857</b>

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

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

**ANNEX A.2**

		<b>Unaudited Jul-Sep 2022</b>	Unaudited Jul-Sep 2021	<b>Unaudited Jan-Sep 2022</b>	Unaudited Jan-Sep 2021
RENTAL INCOME		<b>₱4,866,269</b>	₱4,943,696	<b>₱14,806,394</b>	₱19,067,904
DIRECT COSTS AND EXPENSES	14	<b>2,996,139</b>	1,903,966	<b>9,032,354</b>	5,115,023
GROSS PROFIT		<b>1,870,130</b>	3,039,730	<b>5,774,040</b>	13,952,881
OPERATING EXPENSES	15	<b>3,066,086</b>	5,151,566	<b>13,076,356</b>	19,565,477
LOSS FROM OPERATIONS		<b>(1,195,956)</b>	(2,111,836)	<b>(7,302,316)</b>	(5,612,596)
OTHER INCOME/(EXPENSE) (net)	16	<b>70,927</b>	64,228	<b>203,911</b>	(561,125)
FINANCE COSTS		-	-	-	-
LOSS BEFORE TAX		<b>(1,125,029)</b>	(2,047,608)	<b>(7,098,404)</b>	(6,173,721)
INCOME TAX (EXPENSE) BENEFITS		-	(84,288)	-	(879,729)
NET LOSS FOR THE PERIOD		<b>(1,125,029)</b>	(2,131,896)	<b>(7,098,404)</b>	(7,053,449)
LOSS PER SHARE		<b>(₱0.0003)</b>	(₱0.0007)	<b>(₱0.0022)</b>	(₱0.0022)

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

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

**ANNEX A.3**

	<b>Unaudited 30-Sep-22</b>	Unaudited 30-Sep-21	Audited 31-Dec-21
<b>CAPITAL STOCK</b>	<b>₱3,276,045,637</b>	₱3,276,045,637	₱3,276,045,637
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>24,492,801</b>	24,492,801	24,492,801
<b>DEFICIT</b>			
Balance at beginning of the period	<b>(2,097,669,306)</b>	(2,094,136,215)	(2,094,136,215)
Net loss for the period	<b>(7,098,404)</b>	(7,053,449)	(3,533,091)
Balance at end of the period	<b>(2,104,767,709)</b>	(2,101,189,663)	(2,097,669,306)
<b>TREASURY STOCK</b>	<b>(10,000)</b>	(10,000)	(10,000)
<b>TOTAL EQUITY</b>	<b>₱1,195,760,729</b>	₱1,199,338,775	₱1,202,859,132

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

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

**ANNEX A.4**

	<b>Unaudited Sep 30, 2022</b>	Unaudited Sep 30, 2021	Audited Dec 31, 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income/(Loss) before tax	<b>(P7,098,404)</b>	(P7,053,449)	(P3,269,716)
Adjustments for:			
Depreciation	<b>2,938,033</b>	3,284,739	4,445,996
Provision for (reversal of) ECL on:			
Trade and Receivables	-	-	(4,351,142)
Advances to related parties	-	-	(1,190,071)
Provision for retirement benefits	-	-	41,700
Finance costs	-	-	627,426
Write-off of other assets	-	-	-
Interest income - note 4	<b>(9,801)</b>	(18,537)	(955,514)
Gain/(Loss) on Sale of investment properties	-	-	-
Operating income (loss) before working capital changes	<b>(4,170,173)</b>	(3,787,247)	(4,651,321)
Decrease (increase) in:			
Trade and other receivables	<b>4,680,935</b>	429,196	8,677,795
Prepayments and other assets	<b>(1,267,939)</b>	(1,106,957)	(1,774,893)
Increase (decrease) in:			
Accounts payable and other liabilities	<b>2,710,058</b>	3,077,542	559,199
Advances from lessees	<b>(2,981,942)</b>	(9,509)	27,103
Net cash generated from (used in) operations	<b>(1,029,061)</b>	(1,396,974)	2,837,883
Interest received	<b>9,801</b>	18,537	23,949
Income tax paid	<b>(9,316)</b>	(136,827)	(672,469)
Net cash provided by (used in) operating activities	<b>(1,028,576)</b>	(1,515,264)	2,189,363
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Collection (grant) of advances to related parties	<b>3,979,331</b>	2,267,518	1,184,749
Proceeds from sale of investment properties	-	-	-
Addition to property and equipment	-	(631,890)	(631,890)
Additions to interest in joint operation	-	-	(3,333,915)
Net cash provided by (used in) investing activities	<b>3,979,331</b>	1,635,628	(2,781,056)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Addition (Payment) of advances from related parties	<b>(6,508,769)</b>	(6,420,734)	(4,910,887)
Payment of lease liability	-	-	(150,000)
Proceeds (Payment) from borrowings	<b>(278,585)</b>	(226,226)	(314,794)
Finance cost paid	-	-	(595,993)
Net cash provided by (used in) financing activities	<b>(6,787,354)</b>	(6,646,959)	(5,971,674)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(3,836,599)</b>	(6,526,595)	(6,563,367)
<b>CASH</b>			
At beginning of year	<b>9,589,982</b>	16,153,349	16,153,349
At end of year	<b>P5,753,383</b>	P9,626,753	P9,589,982

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

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

### **Corporate Information**

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

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

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

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

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

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The Group incurred losses in prior years which resulted to a deficit of ₱2,104,767,709, ₱2,101,189,663 and ₱2,133,039,166 as at September 30, 2022, 2021 and 2020, respectively.

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

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

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

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

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

On December 17, 2012, the Group and other related parties entered into a Memorandum of Agreement (MOA) with Avida Land Corp (ALC) for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, house and lots. Out of the total 21.3 hectares, 12.8 hectares (representing 60% of the aggregate area) was owned by the Group and its affiliates and around 8.47 hectares were owned by related parties.

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

### *Business and Operations*

Based on current operation, the Group's cash requirements can be generated internally from rental income from remaining lease contracts of its subsidiaries. The management believes that resources are sufficient for projected leasing plans for the next twelve (12) months. However, should there be an opportunity for an interesting business acquisition as related above, there might be a need to raise funds via a stock rights offering with the local bourse. In any case, the Group has substantial amount of advances to related parties which are realizable upon demand.

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

Project manpower will be outsourced when the operations commence and as the need arises. Technical and managerial plantilla positions will be filled when future operations commence in either the mining sector or industrial estate development. A capital-infusion and build-up program will address the Group's financial standing, the size and timing of which will be directly related to the planned entry into new business endeavors.

The renewed worldwide quarantines brought about by the COVID-19 Omicron variant has caused another slowdown in the business momentum of the country. Despite the limitations of regional travel and the reluctance of foreign investors to enter into new Philippine projects, Management is still optimistic that economic recovery is coming soon especially with the early successful rollout of proven vaccines.

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

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

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

### **Statement of Compliance**

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

### **Basis of Preparation**

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

### **Functional and Presentation Currency**

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

### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Parent Company and subsidiaries it controls. Control is achieved when the Parent Company has power over the investee, is

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

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

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

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

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

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

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

### Composition of the Group

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at September 30, 2022 and 2021. The details of its subsidiaries are as follows:

Subsidiaries	Principal Activity	Ownership	
		2022	2021
Direct Ownership			
PCIC	Manufacturing	100%	100%
Indirect Ownership (Subsidiaries of PCIC)			
ICC	Manufacturing	100%	100%
KCC	Manufacturing	100%	100%
PPC	Manufacturing	100%	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	100%	100%

#### a) Direct ownership

##### *PCIC*

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

#### b) Indirect ownership

##### *ICC*

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



### *KCC*

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

### *PPC*

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

### *RIC*

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

## **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2021.

*COVID-19-related Rent Concessions beyond June 30, 2021 (Amendments to PFRS 16)*. The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria: (a) the rent concession is a direct consequence of COVID-19; (b) the change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change; (c) any reduction in lease payments affects only payments originally due on or before June 30, 2022; and (d) there is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted. The Group adopted the amendments beginning April 1, 2021. As there are no rent concessions granted to the Group as a lessee, these amendments had no impact on the financial statements.

*Interest Rate Benchmark Reform – Phase 2 (Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16)*. The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group shall also disclose information about: (a) the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and (b) their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively. These amendments had no impact on the consolidated financial statements of the Group.

## **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2021**

Standards issued but not yet effective up to the date of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the 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.

*Reference to the Conceptual Framework (Amendments to PFRS 3).* Minor amendments were made to PFRS 3, Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets and Philippine Interpretation IFRIC 21, Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments are effective for annual periods beginning on or after January 1, 2022.

*Property, Plant and Equipment: Proceeds before Intended Use (Amendments to PAS 16).* The amendments to PAS 16, Property, Plant and Equipment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022.

*Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37).* The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

The above amendments are effective for annual periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

#### *Annual Improvements to PFRS Standards 2018–2020*

- PFRS 9, *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- PFRS 16, *Leases – Lease Incentives* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* – allows subsidiaries that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.
- PAS 41, *Agriculture, Taxation in Fair Value Measurements* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The annual improvements are effective for annual periods beginning on or after January 1, 2022.

*Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to PAS 12).* The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). The annual improvements are effective for annual periods beginning on or after January 1, 2023.

An entity intends to apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the Group.

*Definition of Accounting Estimates (Amendments to PAS 8).* The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

*Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2).* The narrow-scope amendments PAS 1, *Presentation of Financial Statements* require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Further, the amendment provides several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1.

The amendment is applied prospectively. The amendment is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2.

*Classification of Liabilities as Current or Non-current (Amendments to PAS 1).* The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Group is currently assessing the impact the amendments will have on current practice.

*PFRS 17, Insurance Contracts.* PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The new standard is not applicable to the Group since it has no activities that are predominantly connected with insurance or issue insurance contracts.

#### *Deferred Effectivity*

*PFRS 10, Consolidated Financial Statements and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC deferred the original effective date of April 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group has not early adopted the previously mentioned new, amended and improved accounting standards and interpretations. The Group continues to assess the impact of the above new, amended and improved accounting standards and interpretations that are effective subsequent to January 1, 2021 on its financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Group's consolidated financial statements when these amendments are adopted.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **“Day 1” Difference**

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

#### **Financial Instruments**

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

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

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

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

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

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

The Group does not have any financial instruments that are measured and classified at FVPL.

##### *Financial Assets at Amortized Cost*

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

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

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

As at September 30, 2022 and 2021, included under financial assets at amortized cost are the Group's cash, trade and other receivables, and advances to related parties (see Notes 4, 5 and 18).

#### *Cash*

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

#### *Trade and other receivables*

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

#### *Advances to related parties*

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

#### *Equity Instruments Designated at FVOCI*

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

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

As at September 30, 2022 and 2021, the Group elected to classify irrevocably its unquoted equity investments under this category (see Note 7).

#### *Financial Liabilities at Amortized Cost*

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

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

As at September 30, 2022 and 2021, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, borrowings, advances from related parties, lease liability and advances from lessees (see Notes 11, 12, 18 and 19).

#### *Accounts payable and other liabilities*

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

#### *Advances from related parties*

Represents cash advances to related parties for working capital requirements.

#### *Advances from lessees*

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

#### *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 statements of comprehensive income in the period incurred.

#### *Lease liability*

Lease liability represents the Group's obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value is effectively treated as a financial liability which is measured at amortized cost, using its incremental borrowing rate as the discount rate. The weighted average rate applied is 19.6%.

#### **Offsetting of Financial Instruments**

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

#### **Derecognition of Financial Instruments**

##### *Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

##### *Financial liabilities*

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

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

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

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

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

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

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

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

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

#### *Significant increase in credit risk*

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

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

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



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

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

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

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

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

#### *Definition of default*

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

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

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

#### *Credit-impaired financial assets*

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

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

#### *Write-off policy*

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

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

#### **Prepayments and Other Current Assets**

Prepayments are expenses paid in advance and recorded as asset before they are utilized.

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

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

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. Prepaid expenses are derecognized upon consumption and usage.

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

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

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

#### **Property and Equipment**

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

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

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

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

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

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

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

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

#### **Investment Properties**

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

Investment properties are measured initially at cost, including transaction costs. 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.

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

Depreciation 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 consolidated statement of comprehensive income in the year of retirement or disposal.

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

### **Interest in Joint Operation**

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

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

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

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

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

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

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

### **Impairment of Non-Financial Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of

the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

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.

### **Equity**

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

#### *Capital stock*

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

#### *Additional paid-in Capital*

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

#### *Treasury shares*

Treasury shares are own equity instruments which are reacquired and are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Treasury shares represent capital stock of the Parent Company that is owned by its subsidiary.

#### *Deficit*

Deficit includes all current and prior period results of operation as disclosed in the consolidated statements of comprehensive income.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided in the normal course of business.

#### *Rental income*

Rental from investment properties that is leased to a third party under an operating lease is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

Rental received in advance is treated as advances from lessees and recognized as income when actually earned.

#### *Interest income*

Interest income is accrued on a time proportion basis, by reference to the principal amount outstanding and at the effective interest rate applicable.

#### *Other income*

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably.

### **Expense Recognition**

Cost and expenses are recognized in the consolidated statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the consolidated statements of comprehensive income are presented using the functional method.

#### *Direct cost and expenses*

Direct cost and expenses are recognized as expense when the related services are rendered.

#### *Operating expenses*

Operating expenses constitute costs of operating and administering the business and are expensed as incurred.

### **Income Tax**

The tax expense for the period comprises current tax only. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

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

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date the Group reassesses the need to recognize previously unrecognized deferred income tax asset.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group applies the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

### *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating lease is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group is a party to operating leases as a lessor. Rentals received under operating leases are charged to consolidated statements of comprehensive income (net of any incentives).

## **Related Party Relationships and Transactions**

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

Related party relationship exists when: (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; and (b) when any of the following conditions apply: (i) the entity and the Group are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party; (v) the entity is a post-employment benefit plan for the benefit of employees of the Group; (vi) the entity is controlled or jointly controlled by a person as identified in (a) above; (vii) the entity or any member of a group of which it is part, provides key management personnel services to the Group or to the parent of the Company; (viii) a person identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

#### **Retirement Benefits Obligation**

The Group has no formal retirement plan for its employees as it does not meet the minimum number of employees required for the establishment of a retirement benefit plan, but accrues the estimated cost of retirement benefits required by the provisions of Republic Act (RA) No. 7641 (Retirement Law). Under RA 7641, the Group is required to provide minimum retirement benefits to qualified employees. The retirement cost accrued includes current service cost and estimated past service cost as determined under RA 7641.

#### **Segment Reporting**

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Operating segments are reported on the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 21.

#### **Earnings (Loss) Per Share**

Earnings (loss) per share are determined by dividing net income (loss) for the year by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Group and held as treasury shares.

#### **Provisions and Contingencies**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the 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 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 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 consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the 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:

#### *Leases*

##### *Group as lessee*

The Group has entered into contract of lease for its office space it occupies. In determining the substance of the lease, the Group considered, among others, whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Based on management judgment, the Group's lease for its office space has substance of lease, thus, the Group recognized right-of-use asset representing the right to use the leased asset and lease liability representing its obligation to make lease payments.

##### *Group as lessor*

The Group has entered into property leases on its buildings classified as investment properties. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets. The Group's operating lease contracts are accounted for as non-cancellable operating leases. In determining whether a lease contract is non-cancellable, the Group considers the provisions in the lease contract which among others, the payment of rental corresponding to the unexpired portion of the lease period. The Group accounts the lease of its buildings under operating lease in accordance with the provision of lease contract and terms of the lease.

##### *Determination of appropriate discount rate in measuring lease liability*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liability. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

##### *Distinction between investment properties and interest in joint operation*

The Group determines whether a property contributed to joint venture operations will be classified as investment properties or investment in joint venture. In making this judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group or whether it will be retained as part of the Group's asset and treated as the Group's share in the joint venture, based on the provisions governing the joint venture agreement. The Group considers land contributed to the joint venture as its investment. The Group, in the normal course of business does not hold the property to earn rentals or for capital appreciation; accordingly, land invested in the joint venture is classified as interest in joint operation (see Note 9).

##### *Realizability of input VAT*

The Group reviews and assesses its input VAT for its recoverability. Factors which primarily affect the recoverability include the completeness of the supporting documentation, entitlement to claim VAT paid as input tax credit against output tax liabilities and future vatable revenue. As at September 30, 2022 and 2021, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱4,458,243 and ₱3,965,707 as at September 30, 2022 and 2021, respectively (see Note 6).

##### *Operating segments*

The Group is organized and managed separately according to the nature of business. The Group reports its segment information according to its activities. Reportable segment operation pertains to the Group's leasing activity, while the non-reportable segment operation pertains to manufacturing operation, and mining and oil exploration.



### *Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

### **Significant Accounting Estimates and Assumptions**

#### *Determination of ECL on trade and other receivables, and advances to related parties*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 22.

The carrying amount of the Group's trade and other receivables amounted to ₱32,652,770 and ₱41,231,162 as at September 30, 2022 and 2021, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱86,474,558 and ₱90,825,700 as at September 30, 2022 and 2021, respectively (see Note 5).

The carrying amount of the Group's advances to related parties amounted to ₱26,602,883 and ₱27,377,809 as at September 30, 2022 and 2021, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱132,103,302 and ₱133,293,374 as at September 30, 2022 and 2021, respectively (see Note 18).

#### *Useful lives of property and equipment, and investment properties*

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

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment, and investment properties 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, 2022 and 2021 are as follows:

	2022	2021
Property and equipment	<b>₱1,125,234</b>	₱2,158,934
Investment properties	<b>46,591,071</b>	49,656,659
	<b>₱47,716,305</b>	₱51,815,593

#### *Impairment of non-financial assets*

Non-financial assets are periodically reviewed to determine any indication of impairment. Though management believes that the assumptions used in the estimation of fair values are reasonable and appropriate, significant changes in these assumptions may materially affect the assessment of the recoverable amounts and any resulting impairment loss could have a material adverse effect in the results of operations.

The accumulated impairment losses on investment properties, investment in joint venture, and property and equipment amounted to ₱237,408,239, ₱47,641,000, and ₱80,120,199, respectively, as at September 30, 2022 and 2021 (see Notes 8, 9 and 10).

#### *Retirement benefits obligation*

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

Retirement benefits obligation as at September 30, 2021 and 2020, amounted to ₱792,300 and ₱750,600, respectively (see Note 17). The Group believes that the retirement benefits obligation and retirement expense would not materially differ had the Group used projected unit credit method for the computation of retirement benefits because of minimal number of employees.

#### *Deferred tax assets*

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

The Group looks at its projected performance in assessing the sufficiency and timing of future taxable income. Based on management assessment, the Group would not be able to realize the deferred tax assets in the near future.

#### **4. CASH**

Cash as at September 30 are as follows:

	2022	2021
Cash on hand	₱20,000	₱20,000
Cash in bank	5,733,383	9,606,753
	<b>₱5,753,383</b>	<b>₱9,626,753</b>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from deposits amounted to ₱9,801 and ₱18,537 as of September 30, 2022 and 2021, respectively (note 16).

There is no restriction on the Group's cash as at September 30, 2022 and 2021.

#### **5. TRADE AND OTHER RECEIVABLES – net**

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

	2022	2021
Advances to third parties	₱106,776,193	₱117,255,565
Receivable from related parties - 18	11,215,841	11,215,841
Rental receivable - 19	721,560	3,194,178
Utilities receivable	260,059	235,527
Others	153,675	155,750
	<b>119,127,329</b>	<b>132,056,861</b>
Allowance for ECL	<b>(86,474,558)</b>	<b>(90,825,700)</b>
	<b>₱32,652,770</b>	<b>₱41,231,162</b>

Trade receivable pertains mainly to outstanding receivable from PHES pertaining to the Group's share in the proceeds of the lot sold in 2015 held as interest in joint venture.

Rent Receivable are non-interest bearing and are collectible within thirty (30) days. Other receivables include advances to employees and reimbursable expenses from PCIC subsidiaries' tenants.

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

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

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

The movement in the allowance for ECL is as follows:

	2022	2021
Beginning Balance	₱86,474,558	₱90,825,700
Provision for ECL	-	-
	<b>₱86,474,558</b>	<b>₱90,825,700</b>

The Group's trade and receivables as at September 30, 2022 and 2021 are not held as collateral for its liabilities and are free from any encumbrances.

## 6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and Other Current Assets as at September 30 are as follows:

	2022	2021
Creditable withholding tax	₱12,986,307	₱11,565,254
Input VAT	4,458,243	3,965,707
Other Prepaid Expenses	288,083	265,796
	<b>₱17,732,632</b>	<b>₱15,796,757</b>

As at September 30, 2022 and 2021, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

## 7. FINANCIAL ASSET AT FVOCI

The Group's financial asset at FVOCI consists of investment in unquoted shares of stock amounting to ₱12,500,000 represents ownership in Bulacan Harbour Dev't. Corp. This investment is irrevocably designated at FVOCI as the Group considers this investment to be strategic in nature and it holds this investment to foreseeable future. The cost of the investment approximates its fair value.

The Group's financial assets at FVOCI as at September 30, 2022 and 2021 are not held as collateral for its financial liabilities.

## 8. INVESTMENT PROPERTIES – net

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

September 30, 2022	Land	Land Improvement	Building and improvements	Total
<b>Cost</b>				
Beginning	₱1,034,826,997	₱3,290,825	₱312,179,250	₱1,350,297,072
Write off	-	-	-	-
Ending	1,034,826,997	3,290,825	312,179,250	1,350,297,072
<b>Accumulated Depreciation</b>				
Beginning	-	3,290,825	86,691,400	89,982,224
Depreciation	-	-	2,299,191	2,299,191
Ending	-	3,290,825	88,990,591	92,281,416
<b>Accumulated impairment loss</b>				
Beginning and end of the year	60,810,650	-	176,597,589	237,408,239
<b>New Carrying amount</b>	<b>₱974,016,347</b>	<b>₱-</b>	<b>₱46,591,071</b>	<b>₱1,020,607,418</b>

September 30, 2021	Land	Land Improvement	Building and improvements	Total
<b>Cost</b>				
Beginning	₱1,007,553,347	₱3,290,825	₱313,469,597	₱1,324,313,768
Write off	-	-	-	-
Ending	1,007,553,347	3,290,825	313,469,597	1,324,313,768
<b>Accumulated Depreciation</b>				
Beginning	-	3,290,825	83,625,810	86,916,635
Depreciation	-	-	2,299,192	2,299,192
Ending	-	3,290,825	85,925,002	89,215,827

Accumulated impairment loss				
Beg and end of the year	33,537,000	-	177,887,935	211,424,935
New Carrying amount	<b>₱974,016,347</b>	<b>₱-</b>	<b>₱49,656,659</b>	<b>₱1,023,673,006</b>

Rental income earned on the above investment properties amounted to ₱4,866,269 and ₱4,943,696 for the quarters ended September 30, 2022 and 2021, respectively (see Note 19). While direct costs and expenses incurred on the buildings amounted to ₱0.8 million and ₱2.3 million for the quarter ended September 30, 2022 and 2021, respectively, shown under "Direct costs and expenses" in the statements of comprehensive income (see Note 14).

In 2020, the Group sold parcels of land with total carrying amount of ₱9,565,900 for a total consideration of ₱56,270,000 which resulted to a total gain of ₱46,704,100.

Fully depreciated investment properties still in use as at September 30, 2022 and 2021 amounted to ₱3,290,824.

No valuation of independent appraiser was conducted for the investment properties. The fair values of the investment properties were determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair values of the properties, the highest and best use of the properties is their current use. The fair value of investment properties amounted to ₱2,956,430,600 and ₱2,936,117,000 as at September 30, 2022 and 2021.

Land with aggregate amount of ₱6,484,935 was under litigation as at September 30, 2022 and 2021 (see Note 22).

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

## 9. **INTEREST IN JOINT OPERATION** – net

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

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

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

The carrying amount of joint venture asset is as follows:

	2022	2021
Cost		
At beginning and end of period	<b>₱573,891,284</b>	₱570,557,369
Adjustment	-	-
	<b>573,891,284</b>	570,557,369
Accumulated impairment loss		
At beginning and end of period	<b>47,641,000</b>	47,641,000
Net carrying amounts	<b>₱526,250,284</b>	₱522,916,369

As at September 30, 2022 and 2021, outstanding receivable from PHES amounted to ₱10,897,335 which pertain to the Group's share in the sale of lot net of expenses (Note 18).

No liabilities, revenue and expenses recognized in relation to the joint venture for the third quarter of 2022.

## 10. PROPERTY AND EQUIPMENT – net

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

September 30, 2022	Building and Improvements	Machinery and Equipment	Transportation Equipment and Tools	Furniture and Fixtures	Right-Of-Use Asset	Total
<b>Cost</b>						
At beginning & end of period	₱800,000	₱547,522,657	₱9,917,568	₱9,669,202	₱230,283	₱568,139,711
Additional/Disposal	-	-	-	-	-	-
	800,000	547,522,657	9,917,568	9,669,202	230,283	568,139,711
<b>Accumulated depreciation</b>						
At beginning of period	800,000	467,402,458	8,822,330	9,038,745	191,903	486,255,435
Depreciation	-	-	586,542	52,299	-	638,841
Balance at end of period	800,000	467,402,458	9,408,872	9,091,044	191,903	486,894,277
<b>Impairment loss</b>						
Balance at beg and end of period	-	80,120,199	-	-	-	80,120,199
<b>Net carrying amounts</b>	<b>₱-</b>	<b>₱-</b>	<b>₱508,696</b>	<b>₱578,158</b>	<b>₱38,380</b>	<b>₱1,125,234</b>

September 30, 2021	Building and Improvements	Machinery and Equipment	Transportation Equipment and Tools	Furniture and Fixtures	Right-Of-Use Asset	Total
<b>Cost</b>						
At beginning & end of period	₱800,000	₱547,522,657	₱9,917,567	₱9,037,312	₱230,283	₱567,507,819
Additional/Disposal	-	-	-	631,890	-	631,890
	800,000	547,522,657	9,917,567	9,669,202	230,283	568,139,709
<b>Accumulated depreciation</b>						
At beginning of period	800,000	466,897,779	8,250,901	8,849,587	76,761	484,875,028
Depreciation	-	504,679	428,571	52,299	-	985,548
Balance at end of period	800,000	467,402,458	8,679,471	8,901,886	76,761	485,860,576
<b>Impairment loss</b>						
Balance at beg and end of period	-	80,120,199	-	-	-	80,120,199
<b>Net carrying amounts</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,238,096</b>	<b>₱767,316</b>	<b>₱153,522</b>	<b>₱2,158,934</b>

In 2020, the Group purchased two units of delivery truck and used as collateral for the borrowings obtained from a local bank (see Note 12). The net carrying amount of delivery trucks amounted to ₱1,666,666.

Total depreciation charged to operation amounted to ₱212,947 and ₱160,290 in third quarter of 2022 and 2021, (see Note 15).

Fully depreciated property and equipment still in use as at September 30, 2022 and 2021 amounted to ₱17,831,400.

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at September 30 are as follows:

	2022	2021
Accounts payable	₱4,884,874	₱5,094,617
Government liabilities	666,497	444,404
Deferred rental	2,922,517	2,743,152
	<b>₱8,473,888</b>	<b>₱8,282,173</b>

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

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

Deferred rental represents advance rental paid by the lessees.

There were no assets of the Group that were collateralized for the above accounts payable and other liabilities as at September 30, 2022 and 2021.

## 12. **BORROWINGS**

Borrowings as at September 30 consist of:

	2022	2021
Current	₱ 97,326	₱118,559
Noncurrent	413,082	759,002
	<b>₱510,408</b>	<b>₱877,562</b>

On December 5, 2020, the Group entered into a chattel mortgage agreement with a local bank amounting to ₱1,140,000, to finance the purchase of Group's delivery trucks. The loan carries an annual interest of 9.46%, or total financing charges of ₱163,704 which approximates the market rate.

There were no significant loan covenants related to the Group's borrowings.

## 13. **CAPITAL STOCK**

Details of the Parent Company's capital stock as at September 30 are as follows:

	2022	2021	2020
Authorized – 3,500,000 shares at ₱1 par value per share	<b>₱3,500,000,000</b>	₱3,500,000,000	₱3,500,000,000
Issued and fully paid – 3,276,045,637 shares at ₱1 par value per share	<b>3,276,045,637</b>	3,276,045,637	3,276,045,637
Less: Treasury stock – 10,000 shares	<b>10,000</b>	10,000	10,000
	<b>₱3,276,035,637</b>	₱3,276,035,637	₱3,276,035,637

On April 29, 2022, 14,560 REDECO shares were converted to WIN shares. As at September 30, 2022, 2021 and 2020, the Parent Company has outstanding shares of 3,271,952,740, 3,271,938,180 and 3,271,938,180, respectively, under its name. Remaining unconverted shares under REDECO as at September 30, 2022, 2021 and 2020, is 4,092,897, 4,107,457 and 4,107,457, respectively. Outstanding shares owned by the public as at September 30, 2022, 2021 and 2020, is 1,413,536,408, 1,413,467,370 and 1,413,467,270, respectively.

### *Track record of registration of securities*

The Parent Company was originally registered as REDECO with the SEC on October 19, 1956. The Parent Company was listed with the PSE on January 9, 1958 with an initial registered 200,000,000 shares.

On May 25, 1995, the BOD and stockholders approved a reverse stock split and a subsequent increase in the authorized capital stock in line with its recapitalization program. Accordingly, on November 15, 1995, the Parent Company filed with the SEC a motion to effect a 1-for-5 reverse stock split which decreased its authorized capital from ₱75 million divided into 75 million shares to ₱15 million divided into 15 million shares, both with a par value of P1 per share. It was approved by the SEC on January 15, 1996. This was also done in order to recall all outstanding stock certificates and be able to account for the over-issuance of shares which management has decided to be absorbed by the Parent Company.

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

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

divided into 2.0 billion shares with a par value of ₱1.00 per share. The proposed amendments were approved by the SEC on September 27, 1996.

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

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

#### *Treasury shares*

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

#### **14. DIRECT COSTS AND EXPENSES**

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

	2022		2021	
	Jul-Sep	Jan-Sep	Jul-Sep	Jan-Sep
Security services	₱1,058,824	₱3,062,442	₱-	₱-
Depreciation	766,397	2,299,191	766,397	2,299,191
Property taxes	1,170,919	3,670,720	-	-
Repairs and maintenance	-	-	1,137,569	2,815,832
	<b>₱2,996,139</b>	<b>₱9,032,354</b>	<b>₱1,903,966</b>	<b>₱5,115,023</b>

#### **15. OPERATING EXPENSES**

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

	2022		2021	
	Jul-Sep	Jan-Sep	Jul-Sep	Jan-Sep
Depreciation	₱212,947	₱638,841	₱160,290	₱985,548
Professional fees	240,000	1,626,250	355,000	7,464,449
Salaries and wages	912,053	3,312,304	819,398	2,621,491
Taxes and licenses	221,067	2,968,119	1,126,465	5,140,787
Rent, light and water	449,860	1,463,593	381,298	1,455,000
Commission	219,936	516,464	308,678	1,067,518
Others	707,594	2,276,992	1,898,824	228,630
SSS, Medicare and EC contributions	102,629	273,792	101,614	602,053
	<b>₱3,066,086</b>	<b>₱13,076,356</b>	<b>₱5,151,566</b>	<b>₱19,565,477</b>

#### **16. OTHER INCOME/(LOSS) – net**

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

	2022		2021	
	Jul-Sep	Jan-Sep	Jul-Sep	Jan-Sep
Interest income	₱4,153	₱9,801	₱6,007	₱18,537
Miscellaneous income	80,357	241,451	80,357	241,071
Interest Expense	(13,583)	(47,341)	(22,137)	(63,487)
Penalties and Surcharges	-	-	-	(757,247)
	<b>₱70,927</b>	<b>₱203,911</b>	<b>₱64,228</b>	<b>(₱561,125)</b>

## 17. RETIREMENT BENEFITS OBLIGATION

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

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

	2022	2021	2020
Balance at beginning of year	₱792,300	₱750,600	₱708,900
Retirement provision	-	-	-
Balance at end of year	₱792,300	₱750,600	₱708,900

The provision for retirement benefits in 2022, 2021 and 2020 were included under salaries, wages and employees benefit in the consolidated statements of comprehensive income. Management believes that the defined benefit obligation computed using the provisions of R.A 7641 is not materially different with the amount computed using the projected unit credit method as required under PAS 19, Employee Benefits.

## 18. RELATED PARTY TRANSACTIONS

The Group, in the normal course of business, has transactions with related parties. The specific relationships, amount of transaction, account balances, the terms and conditions and the nature of the consideration to be provided in settlement are shown below as at September 30.

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021	
<b>Receivable from related parties with common key management</b>					
Philippine Estates Corp. (PHES)	₱-	₱-	₱10,897,335	₱10,897,335	(a)
Genwire Manufacturing Corp. (GMC)	-	-	318,506	318,506	(b)
	₱-	₱-	₱11,215,841	₱11,215,841	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021	
<b>Advances to related parties with common key management</b>					
Polymax Worldwide Limited (PWL)	₱-	₱-	₱105,060,000	₱105,060,000	(c)
The Wellex Group, Inc. (TWGI)	(2,979,830)	(2,268,517)	47,861,427	50,636,924	(c)
Philippine Estates Corp. (PHES)	-	-	-	-	(c)
Concept Moulding Corp. (CMC)	-	-	5,784,759	4,974,259	(c)
	(2,979,830)	(2,268,517)	158,706,185	160,671,183	
Allowance for impairment	-	-	(132,103,302)	(133,293,374)	
	(₱2,979,830)	(₱2,268,517)	₱26,602,883	₱27,377,809	

Category	Amount/Volume		Outstanding Payable		Terms and Condition
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021	
<b>Advances from related parties with common key management</b>					
Diamond Stainless Corp. (DSC)	₱-	₱-	70,557,799	93,745,170	(d)
Plastic City Corp. (PCC)	6,631,407	6,765,240	89,097,271	88,970,329	(d)
International Polymer Corp. (IPC)	582,635	536,837	24,642,300	24,642,300	(d)
Philippine Estates Corp. (PHES)	-	-	36,615,524	31,573,224	(e)



Kenstar Industrial Corp. (KIC)	-	-	<b>23,539,858</b>	23,539,858	(d)
Rexlon Realty Corp. (RRC)	-	-	<b>23,187,370</b>	-	(d)
Polymaster Industrial Corp	-	-	<b>62,500</b>	-	(d)
Pacific Rehouse Corp. (PRC)	-	-	<b>15,540,753</b>	15,540,753	(d)
Ropeman Int'l Corp.	-	-	<b>3,202,528</b>	3,202,528	(d)
	<b>7,214,042</b>	7,302,077	<b>286,445,903</b>	281,214,161	
<b>Advances from stockholders/ key management</b>					
Key management and officers	-	62,500	<b>147,950,629</b>	158,181,293	(f)
	<b>₱7,214,041</b>	₱7,364,576	<b>434,396,532</b>	439,395,454	

*(a) Receivable from venture*

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

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

The Group pays operating expenses on behalf of GMC. These receivables are normally collected the following year, unsecured, non-interest bearing and with no guarantee. The Group has also made offsetting arrangements to settle intercompany receivables and payables.

*(c) Advances to related parties with common key management*

*PWL*

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

The Group recognized advances to PWL of ₱105.1 million for the value of the land foreclosed to settle the affiliate loan with the bank.

The advances are unsecured, with no definite terms of repayment and with no guarantee and to be settled in cash.

*TWGI*

On December 16, 2020, TWGI issued promissory note amounting to ₱46,578,262 for five years maturing December 15, 2025 and bear an interest of 2% per annum. Interest income earned amounted to ₱931,565 and ₱38,723 at the end of year December 2021 and 2020 (see Note 16).

To settle the outstanding advances, the Group entered into the following contracts with TWGI, which in return, amounts incurred will be applied to the outstanding advances:

- The Group entered into a Consultancy Agreement with TWGI from May 1, 2016 to April 30, 2018. The contract has been renewed thrice since then and is currently valid until April 30, 2024. Total consultancy fees incurred for the quarters ended September 30, 2022 and 2021, amounted to ₱120,000.
- Lease Agreement for the Group's office space for a monthly rental of ₱20,000, utilities of ₱5,000, and storage fee of ₱1,000 from May 1, 2016 to April 30, 2018. The Agreement was renewed for another two (2) years thrice until April 30, 2024. Total rent expense and utilities amounted to ₱37,500 and ₱18,000, respectively, for the quarters ended September 30, 2022 and 2021.

The present value of the lease liability as at June 30 is as follows:

	2022	2021
Current	<b>₱41,806</b>	₱118,567
Non-current	-	41,806
	<b>₱41,806</b>	₱160,373

The net carrying amount of the right-of-use assets recognized as at September 30, 2022 and 2021 is disclosed in Note 10.

*CMC*

The Group provided non-interest bearing and unguaranteed advances to CMC for working capital requirements. The advances are unsecured, with no definite terms of repayment and with no guarantee.

Certain advances to related parties were found to be impaired using the provisional matrix as determined by the management, hence, adequate amounts of allowance for impairment have been recognized (Note 23).

The movement in the allowance for ECL is as follows:

	<b>2022</b>	2021
Balance at beginning of year, as previously reported	<b>₱132,103,302</b>	₱133,293,374
Effect on adoption of PFRS 9	-	-
Balance at beginning of year, as restated	<b>132,103,302</b>	133,293,374
Provisions for ECL	-	-
At end of year	<b>₱132,103,302</b>	₱133,293,374

*(d) Advances from related parties*

In prior years, the Group obtained unguaranteed and non-interest-bearing cash advances from related parties intended to finance its operating expenses, capital expenditures and payment of outstanding obligations. The Group has not made any arrangement for the terms, security and guarantee on the advances as the subsidiaries has ceased its manufacturing operations. The advances are payable in cash upon settlement depending on the availability of funds. The Group, however, looks into the possibility of offsetting arrangements to settlement the obligation.

*(e) PHES*

In 2009, the Group and PHES executed unsecured promissory note (PN) for the advances from PHES with a term of five (5) years, and bear interest of three percent (3%) per annum, renewable upon agreement of the parties. This PN was renewed in 2014 with a three-year term which matured during the year with an interest of two percent (2%) per annum. This cash advance is to be settled through cash payments. On December 21, 2018, the PN was renewed for another three (3) years and will mature on 2021.

*(f) Advances from key management*

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

*(g) Remuneration of key management personnel*

Directors' fees for the quarters ended September 30, 2022 and 2021 is NIL.

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

**19. LEASES**

The Group entered into lease contracts with various tenants for the rental of the Group's warehouse and building facilities. The lease term ranges from three (3) months to one (1) year and is renewable under such terms and conditions as the parties may agree, provided that at least ninety (90) days prior to the expiration of the lease period, the lessee shall inform the lessor in writing of his desire to renew the lease.

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

Outstanding advances from lessee amounted to ₱3,345,642 and ₱6,290,973 as at September 30, 2022 and 2021, respectively. Deferred rental income relative to the lease amounted to ₱2,922,517 as at September 30, 2022 and ₱2,743,152 as at September 30, 2021 as shown under "Accounts payable and other liabilities" account (Note 11).

Outstanding balance of receivable from tenants as at September 30, 2022 and 2021 amounted to ₱721,560 and ₱3,194,178, respectively (Note 5). Total rental income is ₱4,866,269 and ₱4,943,696 in the quarter of September 30, 2022 and 2021, respectively.

## 20. INCOME/(LOSS) PER SHARE

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

	2022	2021	2020
Consolidated net loss for the quarter	<b>(₱1,125,029)</b>	(₱2,131,896)	(₱910,050)
Weighted average number of common shares outstanding during the quarter	<b>3,276,045,637</b>	3,276,045,637	3,276,045,637
Loss per share	<b>(₱0.0003)</b>	(₱0.0007)	(₱0.0003)

## 21. CONTINGENCIES

Commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group are not reflected in the accompanying Group financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Group financial statements.

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

On September 7, 1999, the Board of Directors approved the execution of a third-party real estate mortgage on the Group's properties located in Quezon City with an actual area of 6,678 square meters to secure the loan of Waterfront Philippines, Incorporated (WPI), an affiliate, with the Social Security System (SSS) amounting to ₱375 million. In 2003, SSS foreclosed the asset mortgaged in the amount of ₱198,639,000.

The Group filed a civil case against SSS on the foreclosed property claiming for sum of money and damages in the amount of ₱500 million. On January 12, 2015, the contract of loan and real estate mortgage were declared null and void by the RTC. Thus, WPI was directed to return the amount of ₱375 million to SSS and for SSS to return the properties and shares used as collateral. SSS filed an appeal to the Court of Appeals.

On August 30, 2019, the Court of Appeals issued its Decision reversing the RTC's Decision dated January 13, 2015 and Order dated May 11, 2015. The CA declared that the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" and the extra judicial foreclosure sale of the Green Meadows properties covered by Transfer Certificate of Title Nos. N-153395 and N-153396 are valid.

The CA ordered WPI to satisfy the deficiency under the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock" in the sum of ₱841,567,136.85 due to SSS as of April 30, 2010. This obligation shall earn the stipulated interest and penalty charges, in accordance with the terms and conditions of the October 28, 1999 "Contract of Loan with Real Estate Mortgage and Assignment of Shares with Option to Convert to Shares of Stock", computed from April 30, 2010 until finality of the Decision.

On October 4, 2019, WPI filed a Petition for Review on Certiorari before the Supreme Court (SC). The SC in its decision dated July 6, 2021 granted the petition and the CA's Decision dated August 30, 2019 was reversed and set aside. SSS filed its Motion for Reconsideration dated January 28, 2022 praying for the dismissal of WPI's Petition for Certiorari. On February 2, 2022, the Office of the Solicitor General filed a Manifestation stating that it filed/served by electronic means its Motion for Reconsideration due to the physical closure of its offices as a result of the Covid-19 pandemic. On 04 May 2022, WPI, et al., filed a Comment to Respondent's Motion for Reconsideration with Motion to Admit.

To date, no decision has been rendered by the SC.

*B. Wellex Industries, Inc. (formerly known as Republic Resources and Development Corporation) v. Macquarie Green Properties, Inc., et al., Civil Case No. 3185-19 SM (For: Annulment of Public Auction Sale, Reconveyance, Cancellation and Reinstatement of Title and Damages), Regional Trial Court (RTC), Branch 75, San Mateo, Rizal*

On June 24, 2019, the Group filed a civil case for annulment of public auction reconveyance, cancellation and reinstatement of title and damages with the Regional Trial Court of San Mateo Rizal (RTC). The complaint filed was dismissed by the RTC through the Resolution dated October 30, 2019 for failure of the Group to pay the full jurisdictional amount. The Group filed Motion for Reconsideration arguing that it was ready and willing to pay the full jurisdictional amount had the Office of the Clerk of Court (OCC) made the proper assessment, which was its duty and in which assessment plaintiff merely relied on. The Group also argues that the rule on the payment of docket fees should apply by analogy since the deposit required is also a jurisdictional amount and, accordingly, should be given time to pay the deposit upon reassessment by the OCC. On February 10, 2020, the Motion for Reconsideration was dismissed for lack of merit.

On March 13, 2020, the case was escalated to the Supreme Court by filing a Petition for Review on Certiorari with the grounds that the RTC resolved the case in a way not in accord with the law and with the applicable decisions of the Supreme Court. Instead of dismissing the instant case, the RTC should have directed the Office of the Clerk of Court to assess the deposit, or the petitioner to make the correct deposit, required under Section 267 of R.A. 7160, consistent with the rule on the payment of jurisdictional amounts. On September 2, 2020, the Supreme Court denies the Petition for Review on Certiorari.

On October 27, 2020, the Group asked the Supreme Court to consider the Resolution promulgated on September 2, 2020 and to issue another reversing and setting aside the resolution dated October 30, 2019, and the resolution dated February 10, 2020 issued by the RTC, and directing the office of the clerk of Court of the RTC of San Mateo, Rizal to assess the filing fees and the amount of deposit and interest that should be paid by petitioner, and directing the RTC, Branch 75 of San Mateo, Rizal to reinstate the instant case. On March 11, 2021, the Group received the notice from the Supreme Court dated January 25, 2021, denying the Motion for Reconsideration but before the Group can refile the case with the RTC, the Group received an offer from certain individuals to assume the above subject properties on an as-is-where-is basis on an exchange for their properties near the same location. The estimated values of the swapped properties are approximately the same. In order to avoid additional costs of a lengthy court dispute, the BOD has decided to accept the offer of asset swap in a special meeting held on December 17, 2021.

On February 23, 2022, the Group and certain individuals entered into a Memorandum of Agreement whereby both parties have voluntarily agreed, by and between themselves, to exchange their respective properties, on as-is-where-is basis. As of September 30, 2022, documentation is currently in process.

## **22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

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

### Credit risk

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

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

#### Credit risk exposure

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

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

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

Category	Description	Basis for recognizing ECLs	Base	Minimum allowance for credit losses	Stage
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECS	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL-not credit impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL-not credit impaired	25%	12%	2
In default	Amount is over 1-2 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	50%	15%	3
	Amount is over 2-3 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	100%	15%	3
	Amount is over 3-5 years oast due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off	100%	100%	3

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below as at September 30:

		Basis of recognizing ECL	2022	2021
Cash, excluding cash on hand – 4	(a)		<b>₱5,733,383</b>	₱9,606,753
Trade and other receivables, at net amount - 5	(b)	Lifetime ECL	<b>32,652,770</b>	41,231,162
Advances to related parties, at net amount - 18	(c)	Lifetime ECL	<b>26,602,883</b>	27,377,809
			<b>₱64,989,037</b>	₱78,215,724

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

*(a) Cash*

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

*(b) Trade and other receivables and advances to related parties*

Trade and other receivables

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

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

The Group has applied simplified approach to measure the loss allowance using management's adopted policy on ECL on trade and other receivables.

Advances to related parties

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

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

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

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

**Equity Price risk**

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

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

**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, 2022	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities*	₱-	₱7,807,391	₱-	₱7,807,391
Lease liability	-	41,806	-	41,806
Advances from related parties	434,396,532	-	-	434,396,532
Advances from lessees	-	3,345,642	-	3,345,642
Borrowings	-	97,326	413,082	510,408
	<b>₱434,396,532</b>	<b>₱11,292,165</b>	<b>₱413,082</b>	<b>₱446,101,778</b>

\*excluding government liabilities

September 30, 2021	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities*	₱-	₱7,837,769	₱-	₱7,837,769
Lease Liability	-	118,567	41,806	160,373
Advances from related parties	439,395,454	-	-	439,395,454
Advances from lessee	-	6,290,973	-	6,290,973
Borrowings	-	118,559	759,002	877,562
	<b>₱439,395,454</b>	<b>₱14,365,868</b>	<b>₱800,808</b>	<b>₱454,562,130</b>

\*excluding government liabilities

Substantial portion of the Group's financial liabilities consist of advances from related parties. There are no specific terms of advances agreed with the related parties. The Group does not expect to pay its liabilities 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.

### 23. CAPITAL RISK MANAGEMENT

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

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

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

Gearing ratio compares some form of owner's equity to borrowed funds. It is a measure of financial leverage demonstrating the degree to which the Group's activities are funded by owner's funds versus creditor's fund.

During the third quarter of 2022, the Group's strategy, which was unchanged from 2021, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at September were as follows:

	2022	2021
Gross debt	₱447,570,171	₱456,085,971
Cash	(5,753,383)	(9,626,753)
Net debt	441,816,788	446,459,218
Total equity	1,195,760,729	1,199,338,775
Total capital	₱1,637,577,517	₱1,645,797,992
Gearing ratio	26.98%	27.13%

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

The Parent Company is subject to externally imposed capital requirement amounting to ₱6,250,000 which is the minimum paid-up capital requirement of SEC for mining companies. As at September 30, 2022 and 2021, the Parent Company is in compliance with this externally imposed capital requirement.

On the other hand, the Parent Company's subsidiaries are not subject to any externally imposed capital requirements.

## 24. FAIR VALUE INFORMATION

### *Assets and liabilities not measured at fair value*

The methods and assumptions used by the Group in estimating the fair value of the financial instruments is as follows:

- (a) The fair values of advances to related parties and advances from related parties are determined based on the discounted value of future cash flows using the prevailing PH BVAL rates that are specific to the tenor of the instruments' cash flow as at reporting date. Discount rates used is 1.71% in 2021 and 3.42% in 2020.
- (b) The fair value was determined by reference to market transactions on arm's length terms using the cost and market data or direct sales comparison approach at the time of appraisal.

The fair value of cash, trade and other receivables, instalment contract receivable, accounts payable and other liabilities, lease liability and advances from lessee's approximate carrying value due to relatively short-term maturities.

## 25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation about the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes for the years ended September 30 are as follows:

	Balance as at January 1, 2022	Changes from financing cash flows	Balance as at September 30, 2022
Advances from related parties	₱440,905,301	(₱6,508,769)	₱434,396,532
Borrowings	788,993	(278,585)	510,408
Lease liability	41,806	-	41,806
	<b>₱441,736,100</b>	<b>(₱6,787,354)</b>	<b>₱434,948,746</b>

	Balance as at January 1, 2021	Changes from financing cash flows	Balance as at September 30, 2021
Advances from related parties	₱445,816,188	(₱6,420,734)	₱439,395,454
Borrowings	1,103,787	(226,226)	877,562
Lease liability	160,373	-	160,373
	<b>₱447,080,348</b>	<b>(₱6,646,959)</b>	<b>₱440,433,389</b>

## 26. EVENTS AFTER REPORTING PERIOD

On January 27, 2021, The Philippine Interpretations Committee (PIC) has released PIC Q&A 2020-07, PAS 12 – Accounting for the Proposed Changes in Income Tax Rates under the CREATE Bill. Under the PIC Q&A 2020-07, the CREATE Bill is not considered substantively enacted as at December 31, 2020, given the following circumstances as of said date:

- a. Congress as the legislative body and the President representing the executive body of the Government are separate and independent from each other;
- b. The bill is still pending with the bicameral committee of Congress and consequently not yet submitted to the President of the Philippines;
- c. Upon submission to the President of the Philippines, he may either approve it or exercise his veto power to stop the enactment of the bill;
- d. In case the bill is vetoed by the President, Congress may not be able to garner the required two-thirds vote to overturn the presidential veto.



On March 26, 2021, the Republic Act (RA) 11534, known as “The Corporate Recovery or Tax incentives for Enterprises Act” (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Group are as follow:

1. Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5,000,000 and with total assets not exceeding P100,000,000, excluding land on which the particular business entity’s office, plant, and equipment are situated during the taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
2. Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 20, 2023;
3. The imposition of improperly accumulated earnings is repealed.

## **27. RECLASSIFICATION**

Certain accounts in September 30, 2022 unconsolidated financial statements were reclassified to conform to the current year’s presentation.

\* \* \*

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX A – FINANCIAL SOUNDNESS**

	30 Sep 2022	As of 30 Sep 2021	31-Dec 2021
<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
Gross profit margin	<b>0.39</b>	0.73	0.21
<b>Solvency and liquidity ratios:</b>			
Current ratio	<b>4.69</b>	4.42	5.06
Debt to equity ratio	<b>0.37</b>	0.38	0.38
<b>Financial leverage ratios:</b>			
Asset to equity ratio	<b>1.37</b>	1.38	1.38
Debt to asset ratio	<b>0.27</b>	0.28	0.27
Interest rate coverage ratio	<b>Nil</b>	Nil	Nil

**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX B – ACCOUNTS RECEIVABLE AGING**  
**September 30, 2022**

	<b>Current</b>	<b>1-30 days</b>	<b>31-60 days</b>	<b>Over 60 days</b>	<b>Total</b>
Advances to third parties	P-	P-	P-	P106,776,193	P106,776,193
Receivable from related parties	-	-	-	11,215,841	11,215,841
Rental receivable	709,179	12,381	-	-	721,560
Utilities receivable	223,188	20,783	7,202	8,887	260,059
Others	-	-	-	153,675	153,675
Subtotal	932,367	33,164	7,202	118,154,596	119,127,329
Impairment - Advances to affiliates					
Allowance for doubtful accounts					(86,474,558)
Accounts receivable					P32,652,770