

**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

**1,001**

Total No. of Stockholders

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**2<sup>nd</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 **June 30, 2019**
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) 706-7888**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address, and former fiscal year, if changed since last report.

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

<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 - ₱3,276,045,637

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

Yes [  ]                      No. [  ]

12. Check whether the registrant:

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

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

Yes [ x ]                      No [   ]

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

Yes [ x ]                      No [   ]

13. The aggregate market value of the voting stock held by non-affiliates: ₱1,413,467,270

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			
	Apr-Jun, 2019	Apr-Jun, 2018	Jan-Jun, 2019	Jan-Jun, 2018
<b>Income Statement</b>				
Rental Income	<b>₱6,993,052</b>	₱5,683,546	<b>₱14,132,584</b>	₱11,119,917
Direct Costs and Expenses	<b>3,769,775</b>	4,839,975	<b>6,124,976</b>	7,172,749
Gross Profit	<b>3,223,277</b>	843,571	<b>8,007,609</b>	3,947,168
Operating Expenses	<b>7,525,189</b>	4,358,425	<b>12,547,598</b>	8,469,276
Loss from Operations	<b>(4,301,912)</b>	(3,514,854)	<b>(4,539,990)</b>	(4,522,108)
Other Income	<b>82,999</b>	81,347	<b>(285,409)</b>	162,331
Finance Costs	-	-	-	
Loss before Tax	<b>(4,218,914)</b>	(3,433,507)	<b>(4,825,399)</b>	(4,359,777)
Income Tax Expense	-	-	-	
<b>Net Loss for the period</b>	<b>(4,218,914)</b>	(3,433,507)	<b>(4,825,399)</b>	(4,359,777)
<b>Loss per share</b>	<b>(₱0.0013)</b>	(₱0.0011)	<b>(₱0.0015)</b>	(₱0.0013)

	June 2019	June 2018	December 2018
<b>Balance Sheet</b>			
Current Assets	<b>₱132,310,293</b>	₱149,627,478	₱145,397,921
Noncurrent Assets	<b>1,561,786,401</b>	1,659,227,925	1,568,612,947
<b>Total Assets</b>	<b>1,694,096,694</b>	1,808,855,403	1,714,010,868
Current Liabilities	<b>18,661,653</b>	16,718,897	17,496,045
Noncurrent Liabilities	<b>467,744,273</b>	502,171,429	483,998,656
Stockholders' Equity	<b>1,207,690,769</b>	1,289,965,077	1,212,516,167
<b>Total Liabilities and Equity</b>	<b>₱1,694,096,694</b>	₱1,808,855,403	₱1,714,010,868

### Quarter ended June 30, 2019 as compared with quarter ended June 30, 2018

As of the quarter ending June 30, 2019, the company has ceased commercial operations and is disposed to lease out its warehouse facilities. Total revenue recorded for the second quarter of 2019 amounted to ₱6.99 million as compared to the same quarter of 2018 amounting to 5.68 million or an increase of ₱1.31 million or 23.06%. Number of areas being leased out for the second quarter of 2019 is higher than the same quarter of 2018 and rental rates are adjusted higher to cover fixed and overhead expenses.

Loss per share comparison for the quarter ended June 30, 2019 and 2018 are ₱0.0013 and ₱0.0011, respectively.

As of June 30, 2019, there are twelve (12) companies leasing inside the PCIC compound occupying twenty-three (23) areas. List of companies are as follows:

	Tenants	Area in sqm	Contract Period	Rental Income (in PhP)
1	SMYPC - MANILA GLASS PLANT - bldg 22-A	1,134	04/01/18-09/30/19	258,188
2	SMYPC - MANILA GLASS PLANT - bldg 22-B	1,134	04/01/18-09/30/19	258,188
3	SMYPC - MANILA PLASTIC PLANT - bldg 30	2,200	12/31/17-09/30/19	500,894
4	SMYPC - MANILA PLASTIC PLANT - bldg 32	3,052	06/05/17-09/05/19	694,876
5	SMYPC - MANILA PLASTIC PLANT - bldg 33	2,900	06/14/17-09/14/19	660,269
6	SMYPC - MANILA PLASTIC PLANT - bldg 34 Open	5,000	10/08/17-09/07/19	500,000

7	SMYPC - MANILA GLASS PLANT - bldg 37	2,160	01/01/19-09/30/19	491,786
8	SMYPC - MANILA GLASS PLANT - bldg 42	1,980	01/01/19-09/30/19	450,804
9	TRIPLE SEVEN J.R.T. BUILDERS - B15 (formerly Sta. Rita Builders)	1,100	07/01/18-06/30/19	279,911
10	GRACEFUL LOGISTICS	2,000	05/15/18-05/14/20	280,000
11	OYTANA TRUCKING AND LOGISTICS INC.	1,000	06/01/18-05/31/20	130,000
12	BENSON GUEVARRA-43A	500	02/01/19-09/30/19	113,839
13	BENSON GUEVARRA-43B	909	10/01/18-09/30/19	206,960
14	JCNJ/JAYSON CHUA	795	11/01/18-05/31/19	120,670
15	JESSIE LYN B. TAJALE - BUILDING 43C	375	05/15/19-09/30/19	42,690
16	SAN MIGUEL BREWERY INC.- bldg 23	3,105	04/01/19-04/30/20	693,080
17	SAN MIGUEL BREWERY INC.- SHIPPING YARD	1,430	04/01/19-04/30/20	204,286
18	SAN MIGUEL BREWERY, INC - Bldg 24	1,476	03/01/19-03/31/20	336,054
19	SAN MIGUEL BREWERY, INC - Bldg 25 open yard	1,500	03/01/19-03/31/20	220,982
20	JHSA CORP. (formerly Big Thumb Ent. - bldg 23 open space)	35	03/01/19-12/31/19	9,000
21	GOENG MARKETING - Bldg 26	524	01/01/19-12/31/19	119,304
22	FUDSOURCE CORPORATION - bldg 19	1,050	01/15/19-01/15/20	253,125
23	HIGANTIS CONTRACTOR CORP.	698	08/01/18-07/31/19	168,147

Direct cost and operating expenses for the second quarter of 2019 totaled ₱11.29 million as compared to ₱9.20 million for the second quarter of 2018 or a decrease of ₱2.09 million or 22.72%. The amount was recorded and mainly attributable to the following:

1. Direct cost consists of depreciation expense, repairs and maintenance, security services, property taxes and insurance. Total direct cost recorded for the second quarter of 2019 amounted to ₱3.77 million and ₱4.84 million for the second quarter of 2018.
2. Operating expenses increased by ₱3.17 million or 72.66% million resulted by the movements on the following accounts: increase in salaries by ₱0.29 million, light & water by ₱0.15 million, taxes & licenses by ₱0.41 million, depreciation expense by 1.51 million, maintenance expense by ₱0.27 million, commission & rebates by ₱0.11 million, filling fee by ₱0.25 million, and decrease of property tax expense by ₱.72 million.

### **Performance Indicators**

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

1. Revenue Growth – the company gauge its performances by determining Rental Income and the number of tenants for the year. For the 2nd quarter of 2019, the company has an average of ₱304,046 rental income per tenant or an increase of ₱29,703 rental income per tenant or 10.83% as compared to 2nd quarter of 2018. Due to the pending agreement with ALC for the development of Plastic City compound, some of the buildings and warehouses were being leased out again. Some rental rates of other tenants were increased to cover fixed and overhead expenses.
2. Receivables - the company assesses collection of receivables and management of credit by determining the past due ratio done thru the aging of receivables. For the second quarter of 2019, ratio of past due receivables to total outstanding was 40.25%. Since most of the contracts are short term (three to six months), past due ratio of receivables is maintained at least below 10% by the management. 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. Second quarter of 2019 has a gross profit margin of 46.09%, higher by 31.25% for the second quarter of 2018. Increase pertains to higher rental income recorded 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 second quarter of 2019 was 709% as compared to 894.96% on the second quarter of 2018. Increase is attributable to decrease in current assets by ₱17.32 million or 11.58% and increase in current liabilities by ₱1.94 million or 11.60%.
5. Advances by the Affiliates - For the second quarter of 2019, the company has total advances from affiliates amounting to ₱473.58 million or a decrease of ₱19.19 million from last year's ₱492.78 million balance.

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

**Cash**

The Group's cash increased by ₱3.69 million or 259.86% as of June 2019 due to the following activities: (a) net cash used in operating activities is ₱7.21 million, (b) net cash used in investing activities is ₱1.54 million and (c) net cash used in financing activities (₱16.25) million.

**Financial Assets at FVOCI**

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

**Property and equipment**

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

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

**Advances to related parties**

A decrease of ₱67.7 million or 59.11% was due to the application of PFRS 9 which was implemented last January 1, 2018. This will be briefly discussed in the Interim Consolidated Financial Statements attached on this report. Also, the decrease is due to collections and/or offsetting of related receivables and payables among the Group. The Group, in the normal course of business, has transactions with related parties. Receivables from related parties with common key management are normally collected the following year, unsecured, non-interest bearing and with no guarantee.

**Advances from lessees**

Amount recorded for the quarters ended June 30, 2019 and 2018 is ₱5.84 million and ₱3.57 million, respectively or an increase of ₱2.27 million or 63.59% due to increase in the Group's average rental income. Some tenants made advance payment for the contract signed to reserve for the opportunity to lease the areas again after their contract expired.

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

**Wellex Industries, Inc.**

Included in the Group's Investment Properties are four Land of the parent company located at Rodriguez, Rizal amounting to ₱52,335,000 with the following titles and areas:

No.	Land Title	Area (in Sqm.)
1	TCT No. 330602	3,283
2	TCT No. 330603	49,884
3	TCT No. 330604	33,817
4	TCT No. 330605	315,592

On June 24, 2019, the parent company filed a civil case against Macquarie Green Properties, Inc., the Provincial Government of Rizal, the Provincial Treasurer of Rizal and the Register of Deeds for Marikina City for the annulment of public auction sale, reconveyance, cancellation and reinstatement of title and damages related to the property covered by TCT No. 330603 with an area of 49,884 square meters. The

said property was sold at a public auction, without the Company's knowledge last April 24, 2012 at a public auction by Provincial Treasurer of Rizal to Macquarie Green Properties, Inc. for only ₱123,605.56 or ₱2.477 per square meter and on May 21, 2013, a Deed of conveyance was issued.

Prior to the sale of the property, the company did not receive any written notice of levy, or any notice of delinquency or any notice of public auction sale involving the said property. Upon verification from the Office of the Provincial Treasurer, no notice of delinquency in relation to the subject property has been posted at the main hall and in a publicly accessible and conspicuous place in each barangay of the Provincial of Rizal. Likewise, no notice of sale was posted at the main entrance of the provincial building and in a publicly accessible and conspicuous place in the barangay where the property is located.

The Certificate of Sale and Deed of Conveyance do not state compliance with the notices and posting requirements. Further, the public auction sale was made of the entire subject property, and not only of a usable portion thereof as may be necessary to satisfy the claim and cost of sale. Subsequently, on the basis of the sale which did not comply with the notices and posting requirements, Register of Deeds of Marikina City wrongfully cancelled TCT No. 330603 in the name of the company and wrongfully issued TCT No. 009-2015007670 in the name of Macquarie Green Properties, Inc.

As of June 30, 2019, the case is still pending and the Company has not received any order of Execution relative to this case.

#### **Philfoods Asia, Incorporated**

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

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

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

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

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

Since the company ceased its manufacturing operations due to high production costs and stiff competition, the focus of its operations was shifted to leasing its warehouse facilities. The company has reorganized its operations by leasing out its vacant facilities to interested operators.

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 been successful in working out a compromise solution with the Philippine National Bank. As such, the rehabilitation cases of our Group have been settled.

Moving forward, the Company will pursue our Agreement with Avida Land Corporation (ALC) for the development of our real estate. The project will be undertaken in a joint venture with Philippine Estate Corporation (PHES), an affiliate, to convert industrial real estate into commercial and residential zones to increase its value.

The Company has 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.

Based on the current operation, the Company's cash requirements can be generated internally from rental income from the remaining lease contracts of its subsidiaries. However, there should there be substantial deviation from the Company's commercial activities there might be a need to raise funds by way of advances from shareholders or officers and affiliate. The Group has substantial amount of trade receivables and receivables from related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve (12) months.

Furthermore, 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 we are 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.

Manpower will be outsourced when needed and when the operation commence. A capital-infusion and build-up program is also contemplated in order to breathe life into the group's financial standing, the size and timing of which will be directly related to the planned entry into new business endeavors.

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

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

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

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

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

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

**(iv) Commitment for Capital Expenditures**

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

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

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

Rental Income recorded for the second quarter of 2019 compared to 2018 increased by 23.04% due to increase in rental rates to cover fixed expenses for terminated lease contracts. As of June 30, 2019, there are twelve (12) lessees occupying twenty-three (23) areas (warehouses, shipyards, open spaces and extensions) inside the Plastic City premises as compared to eleven (11) lessees occupying twenty (20) areas for 2018. Some rental rates of other tenants were increased to cover fixed and overhead expenses.

Pacific Plastic Corp., a Plastic City Industrial Corp. (PCIC) subsidiary, entered into a Contract to Sell (CTS) with Avida Land Corp. last December 17, 2012, for the sale of its 25,203 sq. meters of land



located in PCIC compound. Consequently, rental contracts with tenants/lessees on such areas were pre-terminated/terminated as of December 31, 2012.

Current ratio (current assets over current liabilities) as of the second quarter of 2019 is 709% with recorded current assets of ₱132.31 million over ₱18.66 million current liabilities. The Group's policy to address liquidity risk is to maintain a balance continuity of funding through cash advances from the Parent Company and affiliates. Payment of current liabilities such as government taxes, employees' premium contributions, etc. was funded through these cash advances. The Group does not expect to pay its liabilities to related parties within twelve months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

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

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

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

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

Please refer to the attached Notes to Financial Statements.

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

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

**(ix) Financial Risk Disclosure**

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

**(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 (See Note 3 of Interim Financial Statements for the full details).

## **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
2019	First Quarter	0.243	0.240
	Second Quarter	0.235	0.231
2018	First Quarter	0.200	0.191
	Second Quarter	0.250	0.235
	Third Quarter	0.280	0.265
	Fourth Quarter	0.247	0.240
2017	First Quarter	0.193	0.190
	Second Quarter	0.214	0.210
	Third Quarter	0.197	0.194
	Fourth Quarter	0.194	0.182

The price information as of June 30, 2019 was closed at ₱0.232 for Class A, the only security traded by the Company.

### **(2) Holders**

The numbers of shareholders of record as of June 30, 2019 were 1,001. Common shares issued and subscribed as of June 30, 2019 were 3,276,045,637.

#### **List of Top 20 Stockholders As of June 30, 2019**

STOCKHOLDER'S NAME	NATIONALITY	SUBSCRIBED	%
PCD NOMINEE CORP.	FILIPINO	903,043,003	27.600
WILLIAM T. GATCHALIAN	FILIPINO	835,000,100	25.520
DEE HUA T. GATCHALIAN	FILIPINO	492,962,532	15.066
SHERWIN T. GATCHALIAN	FILIPINO	317,750,100	9.711
SHINJI KOBAYASHI	FILIPINO	210,650,000	6.438
ELVIRA A. TING	FILIPINO	111,850,000	3.418
KENNETH T. GATCHALIAN	FILIPINO	100,000,100	3.056
THE WELLEX GROUP, INC.	FILIPINO	80,000,000	2.445
RECOVERY DEVELOPMENT CORPORATION	FILIPINO	52,335,090	1.600
PACIFIC REHOUSE CORPORATION	FILIPINO	50,000,000	1.528
PCD NOMINEE CORPORATION (NON-FILIPINO)	OTHERS	41,877,020	1.280
ORIENT PACIFIC CORPORATION	FILIPINO	36,340,000	1.111
LI CHIH-HUI	FILIPINO	23,500,000	0.718
WELLEX GLOBAL EQUITIES, INC.	FILIPINO	4,050,000	0.124
INTERNATIONAL POLYMER CORP.	FILIPINO	2,700,000	0.083
CANDICE CHOA COCUACO	FILIPINO	850,000	0.026
RODOLFO S. ETRELLADO	FILIPINO	750,000	0.023
PROBITY SEC. MGT. CORP.	FILIPINO	463,200	0.014
RICHARD L. RICARDO	FILIPINO	460,000	0.014
REGINA CAPITAL DEVELOPMENT CORPORATION	FILIPINO	300,000	0.009

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

**ANNEX A.1**

	Unaudited 30-Jun-19	Unaudited 30-Jun-18	Audited 31-Dec-18
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash - note 4	₱5,111,824	₱1,424,613	₱12,613,158
Trade and other receivables (net) - note 5	53,834,433	78,131,519	62,063,470
Installment contract receivable - note 20	57,316,896	57,316,896	57,316,896
Prepayments and other current assets - note 6	16,047,140	12,754,450	13,404,397
	<b>132,310,293</b>	<b>149,627,478</b>	<b>145,397,921</b>
<b>Noncurrent Assets</b>			
Financial Assets at FVOCI - note 7	12,500,000	12,500,000	12,500,000
Advances to related parties (net) - note 18	46,840,365	114,543,604	48,379,762
Investment properties (net) - note 8	975,426,188	977,997,751	976,958,982
Interest in joint operation (net) - note 9	522,916,369	542,573,111	522,916,369
Property and equipment (net) - note 10	3,922,635	11,432,615	7,676,990
Other assets	180,844	180,844	180,844
	<b>1,561,786,401</b>	<b>1,659,227,925</b>	<b>1,568,612,947</b>
<b>TOTAL ASSETS</b>	<b>1,694,096,694</b>	<b>1,808,855,403</b>	<b>1,714,010,868</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other liabilities - note 11	12,821,288	13,149,546	13,780,694
Advances from lessees - note 19	5,840,364	3,569,351	3,715,351
	<b>18,661,653</b>	<b>16,718,897</b>	<b>17,496,045</b>
<b>Noncurrent Liabilities</b>			
Advances from related parties - note 18	467,077,073	501,545,929	483,331,456
Retirement benefits obligation - note 16	667,200	625,500	667,200
	<b>467,744,273</b>	<b>502,171,429</b>	<b>483,998,656</b>
<b>Equity</b>			
Capital stock - note 12	3,276,045,637	3,276,045,637	3,276,045,637
Additional paid-in capital	24,492,801	24,492,801	24,492,801
Deficit	(2,092,837,669)	(2,010,563,361)	(2,088,012,271)
	<b>1,207,700,769</b>	<b>1,289,975,077</b>	<b>1,212,526,167</b>
Treasury stock - note 12	(10,000)	(10,000)	(10,000)
	<b>1,207,690,769</b>	<b>1,289,965,077</b>	<b>1,212,516,167</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,694,096,694</b>	<b>₱1,808,855,403</b>	<b>₱1,714,010,868</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 Apr-Jun 2019</b>	Unaudited Apr-Jun 2018	<b>Unaudited Jan-Jun 2019</b>	Unaudited Jan-Jun 2018	Audited 31-Dec-18
<b>RENTAL INCOME</b> - note 19	<b>₱6,993,052</b>	₱5,683,546	<b>₱14,132,584</b>	₱11,119,917	₱22,860,095
<b>DIRECT COSTS AND EXPENSES</b> - note 13	<b>3,769,775</b>	4,839,975	<b>6,124,976</b>	7,172,749	13,270,248
<b>GROSS PROFIT</b>	<b>3,223,277</b>	843,571	<b>8,007,609</b>	3,947,168	9,589,847
<b>OPERATING EXPENSES</b> - note 14	<b>7,525,189</b>	4,358,425	<b>12,547,598</b>	8,469,276	17,315,081
<b>LOSS FROM OPERATIONS</b>	<b>(4,301,912)</b>	(3,514,854)	<b>(4,539,990)</b>	(4,522,108)	(7,725,234)
<b>OTHER INCOME/(EXPENSE)</b> (net) - note 15	<b>82,999</b>	81,347	<b>(285,409)</b>	162,331	(12,257,356)
<b>FINANCE COSTS</b> - note 10	-	-	-	-	(553,916)
<b>LOSS BEFORE TAX</b>	<b>(4,218,914)</b>	(3,433,507)	<b>(4,825,399)</b>	(4,359,777)	(20,536,506)
<b>INCOME TAX EXPENSE</b> - note 17	-	-	-	-	(1,818,170)
<b>NET LOSS FOR THE PERIOD</b>	<b>(4,218,914)</b>	(3,433,507)	<b>(4,825,399)</b>	(4,359,777)	(22,354,676)
<b>LOSS PER SHARE</b> - note 21	<b>(₱0.0013)</b>	(₱0.0011)	<b>(₱0.0015)</b>	(₱0.0013)	(₱0.0068)

*(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**

	Unaudited 30-Jun-19	Unaudited 30-Jun-18	Audited 31-Dec-18
<b>CAPITAL STOCK</b>	<b>₱3,276,045,637</b>	<b>₱3,276,045,637</b>	<b>₱3,276,045,637</b>
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>24,492,801</b>	<b>24,492,801</b>	<b>24,492,801</b>
<b>DEFICIT</b>			
Balance at beginning of the period	<b>(2,088,012,271)</b>	(2,006,203,583)	(2,006,203,584)
Effect on Adoption of PFRS 9 – note 2	-		(59,454,011)
Net loss for the period	<b>(4,825,399)</b>	(4,359,777)	(22,354,676)
Balance at end of the period	<b>(2,092,837,669)</b>	(2,010,563,360)	(2,088,012,271)
<b>TREASURY STOCK</b>	<b>(10,000)</b>	(10,000)	(10,000)
<b>TOTAL EQUITY</b>	<b>₱1,207,690,769</b>	<b>₱1,289,965,078</b>	<b>₱1,212,516,167</b>

*(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**

	Unaudited June 30, 2019	Unaudited June 30, 2018	Audited December 31, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income/(Loss) before tax	(P4,825,399)	(P4,359,777)	(P20,536,506)
Adjustments for:			
Depreciation - notes 8 and 10	5,287,149	5,290,958	10,085,352
Provision on ECL on:			
Trade and Receivables – note 5	-	-	9,610,598
Advances to related parties – note 18	-	-	7,563,687
Gain/(Loss) on:			
Sale of investment properties – note 8	-	-	(4,590,579)
Sales of investment in subsidiaries – note 15	-	-	-
Provision for retirement benefits - note 16	-	-	41,700
Finance costs - note 10	-	-	-
Interest income - note 4	(4,894)	(1,616)	(5,071)
Operating loss before working capital changes	456,856	929,565	2,169,181
Increase in:			
Trade and other receivables	8,229,038	(7,855,340)	(1,540,075)
Prepayments and other assets	(2,642,743)	(866,898)	(1,516,846)
Increase (decrease) in:			
Accounts payable and other liabilities	(959,406)	2,189,312	2,820,461
Advances from lessees	2,125,013	672,338	818,338
Net cash used in operations	7,208,758	(4,931,023)	2,751,059
Interest received	4,894	1,616	5,071
Income tax paid	-	-	(1,818,170)
Net cash provided by (used in) operating activities	7,213,652	(4,929,407)	937,960
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Collection (grant) of advances to related parties	1,539,397	309,243	4,155,742
Acquisition of financial assets at FVOCI – note 7	-	-	-
Proceeds from sale of investment properties – note 8	-	-	46,800,000
Additions to investment properties – note 8	-	-	(22,552,679)
Net cash generated (used) in investing activities	1,539,397	309,243	28,403,063
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of advances from related parties		3,615,738	-
Payments of advances from related parties	(16,254,383)	-	(19,156,904)
Finance cost paid	-	-	-
Net cash provided by (used in) financing activities	(16,254,383)	3,615,738	(19,156,904)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(7,501,334)</b>	<b>(1,004,426)</b>	<b>10,184,119</b>
<b>CASH - note 4</b>			
At beginning of year	12,613,158	2,429,039	2,429,039
At end of year	P5,111,824	P1,424,613	P12,613,158

*(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 and was approved by the Securities and Exchange Commission (SEC) on July 20, 2007.

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

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

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

**Status of Operations and Management Plans**

The 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 ₱2,088,012,271, ₱2,006,203,583 and ₱1,988,134,312 as at December 31, 2018, 2017 and 2016, respectively.

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

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

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

The Parent Company has 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.

*Corporate Rehabilitation*

The Plastic City Industrial Corporation (PCIC) subsidiaries' investment properties were used as collateral to secure loans obtained by the Group, Kenstar Industrial Corp. (KIC) and Plastic City Corp. (PCC) in prior years. The loan was obtained from Banco de Oro (BDO) and Philippine National Bank (PNB) through a joint Credit Agreement with the related parties. Due to default to settle the outstanding obligations by the Group and its related parties, on October 28, 2010, PCIC subsidiaries, Inland Container Corp. (ICC), Pacific Plastic Corp. (PPC), and Kennex Container Corp. (KCC) (the "Petitioners") filed a petition for corporate rehabilitation (the "Plan") before the Regional Trial Court of Valenzuela (RTC) by authority of Section 1, Rule 4 of Rules and Procedures on Corporate Rehabilitation, in order to revive the Petitioners manufacturing operations and bring them back to profitability for the benefit of the creditors, employees and stockholders.

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

On December 17, 2012, the Petitioners filed a revised Plan (which supersedes the first Plan) before the Court. Incorporated in the revised Plan is the Memorandum of Agreement (MOA) entered into by the Parent Company and other related parties with Avida Land Corp. (ALC) for the development of 21.3 hectares of land located in Valenzuela City into a residential clusters of condominium, townhouses, house and lots. Out of the total 21.3 hectares, 12.8 hectares (representing 60% of the aggregate area) was owned by the Petitioners, and around 8.47 hectares were mortgaged to PNB to secure the loan with an outstanding balance of ₱4.01 billion which includes interest, litigation expense, penalties, attorney's fee and other charges as at December 31, 2013. The projected future gross cash flows from the implementation of the revised plan amounted to ₱916.4 million over a nineteen (19) year time frame based on agreed sharing scheme.

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

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

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

In 2014 to 2016, several motions for reconsiderations and petitions for review were filed before Court of Appeals (CA) and Supreme Court (SC).

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

On January 24, 2018, the RTC rendered a decision ordering NLC and some of the stockholders jointly and solidarily liable to pay PNB amounting to ₱593 million with interest of 12% per annum from date of default, 24% penalty per annum and ₱3 million attorney's fees, less the proceeds of the auction sale of ₱119 million. On March 20, 2018 in order to terminate the proceedings and to finalize the settlement of all obligations of the Group to PNB, including, but not limited to the judgment of RTC, the Group entered into a Settlement Agreement with PNB to pay ₱950 million (the 'Settlement Amount') payable in two (2) tranche (₱850 million upon execution of the Settlement Agreement and ₱100 million thirty (30) days after). Once PNB receive the Settlement Amount, it shall release the titles and issue the corresponding Cancellation of Mortgage of its lien over Davao and Valenzuela properties of the Group. Also, PNB shall sell the Quirino, Manila properties to NLC for a consideration of ₱170 million which is to be taken from the Settlement Amount. Further, after compliance of all obligations in the Settlement Agreement, the Group and NLC are hereby mutually, irrevocably, freely and voluntarily release and forever discharge one another, including their principals, affiliates, subsidiaries, owners, directors, officers, managers, successors-in-interest, agents, representatives, and/or assigns, from any and all claims, suits, and causes



actions of whatever kind and nature, disclosed or undisclosed, pending or potential, which in law or equity they had, now have, or may have against each other, directly or indirectly arising out of, wholly or partially from, or related to or incidental to any of the facts, issues, or disputes involved in above cases, all of which claims, suits and causes of action the parties hereby relinquish, abandon, waive, save for such cause(s) of action that a party hereto may have against the other arising out of the said Settlement Agreement.

On the same date, the Group issued a check payable to PNB amounting to ₱850 million. On April 11, 2018, the Group paid the balance of ₱100 million to complete its obligations under the Settlement Agreement.

In view of the Settlement Agreement between the parties, on May 31, 2018, Valenzuela RTC has rendered a decision that the corporate rehabilitation case is now closed and terminated. Based on current operation, the Parent Company's cash requirements can be generated internally from rental income from the remaining lease contracts of its subsidiaries. However, should there be substantial deviation from the Parent Company's commercial activities there might be a need to raise funds by way of advances from shareholders or officers and affiliates.

The Group has substantial amount of trade receivables and receivables from related parties which are realizable upon demand. The management believes that resources are sufficient for projected plans for the next twelve months.

## **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.

### **Impact of the Revised Code**

The Republic Act No. 11232 otherwise known as the Revised Corporation Code of the Philippines (the "Revised Code") took effect on February 23, 2019, which aimed at improving ease of doing business, affording more protection to corporations and stockholders, and promoting good corporate governance.

The Revised Code should be applied prospectively. The requirement to prepare and submit the annual financial statements based on the Revised Code is effective beginning on or after February 23, 2019. All financial statements covering the periods on or before February 22, 2019 are required to be prepared and submitted in accordance with the Old Corporation Code or Batas Pambansa Bilang 68, in addition to the requirements of the SRC Rule 68.

The Revised Code will have no impact on the preparation and submission of the Group's consolidated financial statements.

## 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, 2018

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 at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods.

For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The Group has applied PFRS 9 for the first time.

The Group has adopted the PFRS 9 *Financial Instruments* from January 1, 2018 and resulted in changes in accounting policies as follows:

### *(a) Classification and measurement of financial instruments*

The assessment of the Group's business model was made as at January 1, 2018, and applied retrospectively to those financial assets that were not derecognized before January 1, 2018.

The effects of reclassification of financial instruments into the appropriate PFRS 9 categories are as follows:

- (1) Cash, trade and other receivables, installment contract receivable and advances to related parties previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost.
- (2) Unquoted equity investments previously classified as available-for-sale (AFS) financial assets are now classified and measured as equity instruments designated at FVOCI. The Group elected to classify irrevocably its unquoted equity investments under this category as it considers these investments to be strategic in nature and it intends to hold these investments for the foreseeable future.

While there was a change in the classification and measurement on the Group's financial instruments as at June 30, 2019 and 2018, there were no changes in the balances of any line item in the consolidated financial statements since the accounting policies previously adopted under PAS 39 is the same as its counterpart under PFRS 9, thus no restatement was made in the consolidated financial statements.

### *(b) Impairment of financial assets*

The Group adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to impairment of financial assets are recognized in the opening balance of Retained Earnings (or other component of equity, as appropriate) in the current year. The application of the expected credit losses (ECL) methodology based on the stages of impairment assessment for trade and other receivables, and advances to related parties resulted in the recognition of additional allowance for credit losses for trade and other receivables, and advances to related parties amounting ₱59,454,011 as at January 1, 2018 were charged against the opening balance of "Deficit" account.

*PFRS 15, Revenue from Contracts with Customers.* PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognize in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the framework to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has concluded that revenue from services should be recognized at the point in time when service has been rendered, generally on rental income received. Therefore, the adoption of PFRS 15 did not have an impact on the timing of revenue recognition.

#### *Annual Improvements to PFRS 2014-2016 Cycle*

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendment to PFRS 12 is effective on January 1, 2017.

The annual improvements addressed the following issues:

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

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

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

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

*PFRS 2 (Amendments), Share-based Payment – Classification and Measurement of Share-based Payment Transactions.* The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash settled to equity settled;(b) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations.

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

*PFRS 4 (Amendments), Insurance Contracts – Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts.* The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the “deferral approach”). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

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

*Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration.* This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The interpretation does not have material impact on the Group’s consolidated financial statements.

### **New Accounting Standards and Amendments to Existing Standards Effective Subsequent to January 1, 2018**

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

#### *Annual Improvements to PFRS 2015-2017 Cycle*

The annual improvements addressed the following issues:

*PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation.* The amendments provides additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition date fair value.

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

*PFRS 11 (Amendments), Joint Arrangements – Previously Held Interest in a Joint Operation.* The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure its previously held interests.

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

*PAS 12 (Amendments), Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity.* The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

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

*PAS 23 (Amendments), Borrowing Costs – Borrowing Costs Eligible for Capitalization.* The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a

qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The above improvements are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

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

*PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendments also clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

*PAS 28 (Amendments), Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures.* The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are effective for annual periods beginning on or after January 1, 2019 and shall be applied retrospectively. However, early application of these amendments is permitted. The amendments will not have an impact on the disclosures and amounts recognized on the Group's financial statements.

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

*PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation.* This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

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

*Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments.* This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

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

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

The adoption of the standard will result in recognition of an asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make lease payments in the consolidated statements of financial position. In addition, this will result in recognition of depreciation on the right-of-use asset and interest on lease liability in the consolidated statement of comprehensive income, and

presentation of the total amount of cash paid into a principal portion and interest within financing activities in the consolidated statements of cash flows.

*PAS 1 (Amendments), Presentation of Financial Statements and PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

*PFRS 3 (Amendments), Business Combinations – Definition of a Business.* The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. In addition, it provides guidance and illustrative examples to help entities assess whether a substantive process has been acquired and remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendment also adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

*PFRS 17, Insurance Contracts.* The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

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

### **Basis for Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries, which were all incorporated in the Philippines and are registered with the Philippine SEC.

<b>Subsidiaries</b>	<b>Principal Activity</b>	<b>Ownership</b>	
		<b>2019</b>	<b>2018</b>
Direct Ownership			
PCIC	Manufacturing	<b>100%</b>	100%
Indirect Ownership (Subsidiaries of PCIC)			
ICC	Manufacturing	<b>100%</b>	100%
KCC	Manufacturing	<b>100%</b>	100%
PPC	Manufacturing	<b>100%</b>	100%
Rexlon Industrial Corporation (RIC)	Manufacturing	<b>100%</b>	100%

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

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

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

a) Direct ownership

*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.

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

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient

data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by 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 26 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 and FVOCI. The classification of financial assets depends on the financial assets 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 FV



#### *Financial assets at amortized cost*

Financial assets are measured at amortized 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 June 30, 2019 and 2018, included under financial assets at amortized cost are the Group's cash, trade and other receivables, installment contract receivables and advances to related parties (see Notes 4, 5, 18 and 21).

#### *Cash*

The Company'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 advances to third parties, trade receivable, 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 June 30, 2019 and 2018, 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 June 30, 2019 and 2018, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, advances from related parties, and advances from lessees (see Notes 11, 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.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the 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 statement of comprehensive income.

### **Impairment of Financial Assets**

The Group recognizes an allowance for expected credit losses (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 general approach in calculating ECL. The Group recognizes a loss allowance based on lifetime 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 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 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 more than 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 is 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 concessions 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 statement 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 are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

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.

#### *Input 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. When the input VAT exceeds the output tax, the excess is carried over the next reporting period and is recognized as an asset presented as input VAT in the consolidated statements of financial position. 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 stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax 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

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. Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred. Subsequent to initial recognition, investment properties (except land) are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	In Years
Buildings and improvements	50
Land improvements	5

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

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

### **Interest in Joint Operation**

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

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

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

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

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

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

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

### **Impairment of Non-financial Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

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

## **Equity**

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

### *Capital stock*

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

### *Additional paid-in Capital*

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

### *Treasury shares*

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

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

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

### *Deficit*

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

## **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, returns and value added taxes and when specific criteria have been met.

### *Rental income*

Rental from investment properties that is leased to a third party under an operating lease is recognized in the statement of comprehensive income on a straight-line basis over the lease term. Rental received in advance is treated as advances from lessees and recognized as income when actually earned.

### *Interest income*

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

#### *Other income*

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

#### **Expense Recognition**

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

#### *Direct cost and expenses*

Direct cost of services is recognized as expense when the related services are rendered.

#### *Operating expenses*

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

#### **Income Tax**

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

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

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

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

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

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

#### **Leases**

The Group accounts for its leases as follows:

#### *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statements of financial position at amounts equal to the fair value of the leased property, or



if lower, at the present value of minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in the statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

#### *Group as Lessor*

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

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

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

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

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

#### **Related Party Relationships and Transactions**

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

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

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

#### **Retirement Benefits Obligation**

The Group has no formal retirement plan for its employees as it does not meet the minimum number of employees required for the establishment of a retirement benefit plan but accrues the estimated cost of retirement benefits required by the provisions of Republic Act (RA) No. 7641 (Retirement Law). The Group has 9 employees as at June 30, 2018 and 2017, respectively. Under RA 7641, the Group is required to provide minimum retirement benefits to qualified employees. The retirement cost accrued includes current service cost and estimated past service cost as determined under RA 7641.

## **Segment Reporting**

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

Operating segments are reported on the basis upon which the Group reports its primary segment information.

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

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

## **Provisions and Contingencies**

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

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

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

## **Events After the Reporting Date**

The Group identifies post-year events as events that occurred after the reporting date but before the date when the Group's consolidated financial statements were authorized for issue. Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the Group's consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the Group's consolidated financial statements when material.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTION**

The preparation of the Group's consolidated financial statements requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements. These judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group believes the following represent a summary of these significant judgments and estimate and related impact and associated risks in the consolidated financial statements.

### **Significant Accounting Judgments in Applying the Group's Accounting**

In the process of applying the Group's accounting policies, management has made the following judgments apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### *Functional currency*

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

#### *Operating lease commitments*

##### *Group as lessee*

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

##### *Group as lessor*

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

#### *Distinction between real estate inventories and interest in joint operation*

The Group determines whether a property contributed to joint venture operations will be classified as real estate inventories or investment in joint venture. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle or whether it will be retained as part of the Group's asset and treated as the Group's share in the joint venture, based on the provisions governing the joint venture agreement. The Group considers land contributed to the joint venture as its investment.

The Group, in the normal course of business is not engaged in sale of real estate property; accordingly land invested in the joint venture is classified as interest in joint operation (see Note 9).

#### *Realizability of input VAT*

The group reviews and assesses its input 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 June 30, 2019 and 2018, the Group assessed that its input VAT is recoverable in future periods.

The Group's input VAT amounted to ₱3,058,584 and ₱2,669,389 as at June 30, 2019 and 2018, 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 23.

The carrying amount of the Group's trade and other receivables amounted to ₱53,834,433 and ₱78,131,519 at June 30, 2019 and 2018, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱71,729,232 and ₱58,077,198 as at June 30, 2019 and 2018 (see Note 5).

The carrying amount of the Group's advances to related parties amounted to ₱46,840,365 and ₱114,543,604 at June 30, 2019 and 2018, respectively. Allowance for ECL recognized in the statements of financial position amounted to ₱121,182,068 and ₱58,205,806 as at June 30, 2019 and 2018 (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 investment property would increase recorded operating expenses and decrease noncurrent assets.

The net carrying values of the Group's investment properties (except land) and property and equipment as at June 30, 2019 and 2018 are as follows:

	2019	2018
Property and equipment - note 10	<b>₱3,922,635</b>	₱11,432,615
Investment properties - note 8	<b>56,060,208</b>	58,631,771
	<b>₱59,982,843</b>	₱70,064,386

*Impairment of non-financial assets*

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

The accumulated impairment losses on property and equipment, investment properties and investment in joint venture amounted to ₱365,169,438 and ₱365,169,438 as at June 30, 2019 and 2018 (see Notes 8, 9 and 10).

*Retirement benefits obligation*

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

Retirement benefits obligation as at June 30, 2019 and 2018 amounted to nil for both periods (see Notes 16). The Group believes that the retirement benefits obligation and retirement expense would not materially differ had the Group used projected unit credit method for the computation of retirement benefits because of minimal number of employees.

*Deferred tax assets*

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

The Group looks at its projected performance in assessing the sufficiency and timing of future taxable income. As at June 30, 2019 and 2018, the Group's deferred tax assets with full valuation allowance are fully disclosed in Note 17.

#### 4. **CASH**

Cash as at June 30 are as follows:

	2019	2018
Cash on hand	P20,000	P20,000
Cash in bank	5,091,824	1,404,613
	<b>P5,111,824</b>	<b>P1,424,613</b>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from deposits amounted to P2,642 and P1,616 for the quarter ended June 30, 2019 and 2018, respectively (see note 15).

There is no restriction on the Group's cash as at June 30, 2019 and 2018.

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

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

	2019	2018
Advances to third parties	P108,827,147	P118,920,195
Receivable from related parties – note 18	11,215,841	11,215,841
Rental receivable – note 19	5,001,558	5,544,576
Utilities receivable	458,910	493,366
Others	60,210	34,739
	<b>125,563,665</b>	<b>136,208,717</b>
Allowance for ECL	<b>(71,729,232)</b>	<b>(58,077,198)</b>
	<b>P53,834,433</b>	<b>P78,131,519</b>

The Group's trade and other receivables have been reviewed for indicators of impairment at the end of the year. 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.

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 Group's trade and receivables as at June 30, 2019 and 2018 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 June 30 are as follows:

	2019	2018
Creditable withholding tax	P12,604,446	P10,085,061
Input VAT	3,058,584	2,669,389
Prepaid Expenses	384,110	-
	<b>P16,047,140</b>	<b>P12,754,450</b>

As at June 30, 2019 and 2018, respectively, no provision for impairment has been recorded since management believes that the accounts are fully realizable.

#### 7. **FINANCIAL ASSET AT FVOCI**

In 2018, the Group changed the classification and measurement of the financial asset amounting to P12,500,000 to financial asset at FVOCI.

In 2017, the Group acquired an investment in unquoted shares of stock in Bulacan Harbour Dev't. Corp. amounting to ₱12,500,000. The investment is designated as FVOCI as the Group does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial recognition, AFS financial assets are measured at fair value with unrealized gain or loss being recognized in other comprehensive income as 'Unrealized fair value gain (loss) on AFS financial asset', net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

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

## 8. INVESTMENT PROPERTIES – net

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

	Land	Land Improvement	Building and Improvements	Total
Cost				
Beginning	₱980,176,630	₱3,290,824	₱312,179,250	₱1,295,646,704
Write off	-	-	-	-
Ending	980,176,630	3,290,824	312,179,250	1,295,646,704
Accumulated Depreciation				
Beginning	-	3,290,824	77,988,659	81,279,483
Depreciation	-	-	1,532,794	1,532,794
Ending	-	3,290,824	79,521,453	82,812,277
Accumulated impairment loss	-	-	-	-
Beginning and end of the year	60,810,650	-	176,597,589	237,408,239
New Carrying amount – June 30, 2019	₱919,365,980	₱-	₱56,060,208	₱975,426,188

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

In 2018, the Group sold parcels of land with total carrying amount of ₱42,209,421 for a total consideration of ₱46,800,000 which resulted to a total gain of ₱4,590,579 (see Note 15).

Rental income earned on the above investment properties amounted to ₱6.99 million and ₱5.683 million for the quarters ended June 30, 2019 and 2018 (see Note 19), respectively. While direct operating expenses incurred on the buildings such as repairs and maintenance, security, insurance and property tax, and depreciation expenses amounted to ₱3.22 million and ₱4.84 million, respectively, shown under "Direct costs and expenses" in the statements of comprehensive income (see Note 13).

The latest appraisal on the Group's land, and building and improvements was on December 9, 2015 by independent appraisers. The fair value is determined using the combination of income capitalization approach, cost approach and market approach.

Based on the recent appraisal conducted by an independent appraiser, the fair value of building and improvements amounted to ₱74,951,000. The fair value is determined to be lower than its cost, accordingly, the Group recognized impairment loss on building and improvements amounting to ₱29,087,993 in 2015.

The fair value of land amounted to ₱975,966,600, which is higher than its carrying amount. Previously recognized impairment loss was reversed to the extent of the lands market value. In 2015, the Group recognized reversal of previously recognized impairment loss amounting to ₱337,293,585.

The Group's land with aggregate carrying amount of ₱651,901,500 as at June 30, 2019 and 2018 are subject properties under the MOA with ALC as disclosed in Note 20. Under the terms of the MOA, the Group shall transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances. Pursuant to these terms, the Group has contracted a third party for the demolition of certain buildings located in the subject properties. As at June 30, 2019, properties covered by the MOA has not been transferred to ALC.

Land with an aggregate carrying amount of ₱381,136,506 as at June, 2019 and 2018, are mortgaged with PNB to secure the loans obtained by related parties which were already settled during 2018 (see Notes 1 and 18).

On April 2016, the Group sold its land with carrying amount of ₱20,077,210 for a total consideration of ₱33,071,462 which resulted to a gain of ₱12,994,252 (see Note 15).

Except from restrictions in relation to PNB loans and MOA with ALC, 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.

Fully depreciated investment properties still in use as at June 30, 2019 and 2018 amounted to ₱3,290,824.

The fair value information of investment property is disclosed in Note 25.

Included in the Group's Investment Properties are four Land of the parent company located at Rodriguez, Rizal amounting to ₱52,335,000 with the following titles and areas:

No.	Land Title	Area (in Sqm.)
1	TCT No. 330602	3,283
2	TCT No. 330603	49,884
3	TCT No. 330604	33,817
4	TCT No. 330605	315,592

On June 24, 2019, the parent company filed a civil case against Macquarie Green Properties, Inc., the Provincial Government of Rizal, the Provincial Treasurer of Rizal and the Register of Deeds for Marikina City for the annulment of public auction sale, reconveyance, cancellation and reinstatement of title and damages related to the property covered by TCT No. 330603 with an area of 49,884 square meters. The said property was sold at a public auction, without the Company's knowledge last April 24, 2012 at a public auction by Provincial Treasurer of Rizal to Macquarie Green Properties, Inc. for only ₱123,605.56 or ₱2.477 per square meter and on May 21, 2013, a Deed of conveyance was issued.

Prior to the sale of the property, the company did not receive any written notice of levy, or any notice of delinquency or any notice of public auction sale involving the said property. Upon verification from the Office of the Provincial Treasurer, no notice of delinquency in relation to the subject property has been posted at the main hall and in a publicly accessible and conspicuous place in each barangay of the Provincial of Rizal. Likewise, no notice of sale was posted at the main entrance of the provincial building and in a publicly accessible and conspicuous place in the barangay where the property is located.

The Certificate of Sale and Deed of Conveyance do not state compliance with the notices and posting requirements. Further, the public auction sale was made of the entire subject property, and not only of a usable portion thereof as may be necessary to satisfy the claim and cost of sale. Subsequently, on the basis of the sale which did not comply with the notices and posting requirements, Register of Deeds of Marikina City wrongfully cancelled TCT No. 330603 in the name of the company and wrongfully issued TCT No. 009-2015007670 in the name of Macquarie Green Properties, Inc.

As of June 30, 2019, the case is still pending and the Company has not received any order of Execution relative to this case.

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

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

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

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

The carrying amount of joint venture asset is as follows:

	<b>2,019</b>	2018
Cost		
At beginning and end of period	<b>₱570,557,369</b>	₱590,214,111
Transfer to investment property – Note 8	-	-
	<b>570,557,369</b>	590,214,111
Accumulated impairment loss		
At beginning and end of period	<b>47,641,000</b>	47,641,000
Net carrying amounts	<b>₱522,916,369</b>	₱542,573,111

The Group's land is carried at cost, less accumulated impairment loss. The fair value of land is determined using the combination of income capitalization approach, cost approach and market approach.

As at June 30, 2019 and 2018, outstanding receivable from PHES amounted to ₱10,897,335 which pertain to the Group's share in the sale of lot net of expenses (see Note 18).

No revenue and expenses recognized in relation to the joint venture for the second quarter of 2019.

#### **10. PROPERTY AND EQUIPMENT – net**

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

<b>June 30, 2019</b>	<b>Building and Improvement</b>	<b>Machinery and Equipment</b>	<b>Transportation Equipment and Tools</b>	<b>Furniture and Fixtures</b>	<b>Total</b>
Cost					
At beginning & end of period	<b>₱800,000</b>	<b>₱547,522,657</b>	<b>₱8,203,282</b>	<b>₱8,828,122</b>	<b>₱565,354,061</b>
Accumulated depreciation					
At beginning of period	<b>800,000</b>	<b>459,725,468</b>	<b>8,203,282</b>	<b>8,828,122</b>	<b>477,556,872</b>
Depreciation	-	<b>3,754,355</b>	-	-	<b>3,754,355</b>
Balance at end of period	<b>800,000</b>	<b>463,479,823</b>	<b>8,203,282</b>	<b>8,828,122</b>	<b>481,311,227</b>



Impairment loss					
Balance at beginning and end of period	-	<b>80,120,199</b>	-	-	<b>80,120,199</b>
Net carrying amounts	<b>₱-</b>	<b>₱3,922,635</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,922,635</b>

June 30, 2018	Building and improvements	Machinery and equipment	Transportation equipment and tools	Furniture and fixtures	Total
Cost					
At beginning and end of period	₱800,000	₱547,522,657	₱8,203,282	₱8,828,122	₱565,354,061
Accumulated depreciation					
At beginning of period	800,000	452,216,759	8,203,282	8,823,042	470,043,083
Depreciation	-	3,754,354	-	3,810	3,758,164
Balance at end of period	800,000	454,093,936	8,203,282	8,824,947	473,801,247
Impairment loss					
Balance at beginning and end of period	-	80,120,199	-	-	80,120,199
Net carrying amounts	<b>₱-</b>	<b>₱13,308,522</b>	<b>₱-</b>	<b>₱3,175</b>	<b>₱11,432,615</b>

The Group entered into a chattel mortgage agreement with local bank for the purchase of transportation equipment payable in three (3) years until 2017. Transportation equipment was used as collateral to secure payment of borrowings. The loan was fully paid in 2017. Finance cost paid for the years ended December 31, 2018, 2017 and 2016 amounted to Nil, ₱7,505 and ₱22,869, respectively. Fully depreciated property and equipment still in use as at June 30, 2019 and 2018 amounted to ₱17,831,404 and ₱17,826,324, respectively.

The Group has no other contractual commitment to acquire property and equipment as at June 30, 2019 and 2018.

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

	2019	2018
Accounts payable	<b>₱5,345,476</b>	₱4,813,097
Government liabilities	<b>6,508,087</b>	6,531,928
Deferred rental	<b>967,725</b>	1,804,520
	<b>₱12,821,288</b>	₱13,149,545

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 June 30, 2019 and 2018.

## 12. CAPITAL STOCK

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

	2019	2018	2017
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
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

#### *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.

As at June 30, 2019, 2018 and 2017, the Parent Company has outstanding 3,271,938,180 shares under its name. Remaining unconverted shares under REDECO as at June 30, 2019, 2018 and 2017, is 4,107,457. Outstanding shares owned by the public as at June 30, 2019, 2018 and 2017, is 1,413,523,748.

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

	Market value per share
<b>June 30, 2019</b>	<b>0.231</b>
<b>June 30, 2018</b>	<b>0.235</b>
<b>June 30, 2017</b>	<b>0.210</b>

#### *Treasury shares*

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

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

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

	2019		2018	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Security services	<b>₱1,026,559</b>	<b>₱1,954,119</b>	₱853,309	₱1,706,619
Depreciation	<b>766,397</b>	<b>1,532,794</b>	766,397	1,532,794
Property taxes	<b>1,506,072</b>	<b>2,086,958</b>	2,139,412	2,772,123

Repairs and maintenance	470,747	551,104	816,964	897,321
Insurance	-	-	-	-
	<b>₱3,769,775</b>	<b>₱6,124,976</b>	<b>₱4,576,082</b>	<b>₱6,908,857</b>

#### 14. OPERATING EXPENSES

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

	2019		2018	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Depreciation	₱1,877,177	₱3,754,355	₱1,879,082	₱3,758,164
Professional fees	1,025,000	1,206,000	1,033,223	1,374,000
Salaries and wages	888,806	1,463,503	465,919	930,734
Taxes and licenses	1,999,443	3,188,872	159,213	634,268
Rent, light and water	450,288	848,235	299,181	595,258
Commission	295,055	444,323	184,623	364,762
Others	921,683	1,533,541	568,950	1,006,031
SSS, Medicare and EC contributions	67,738	108,769	32,126	69,951
	<b>₱7,525,189</b>	<b>₱12,547,598</b>	<b>₱4,622,317</b>	<b>₱8,733,168</b>

#### 15. OTHER INCOME/(LOSS) – net

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

	2019		2018	
	Apr-Jun	Jan-Jun	Apr-Jun	Jan-Jun
Interest income	₱2,642	₱4,894	₱627	₱1,616
Gain on sale of investment property	-	-	-	-
Miscellaneous income	80,357	160,714	80,357	160,714
Penalties and Surcharges	-	(451,017)	-	-
	<b>₱82,999</b>	<b>(₱285,409)</b>	<b>₱80,984</b>	<b>₱162,330</b>

Penalties and surcharges pertain to PPC and ICC BIR Audit 2017.

#### 16. RETIREMENT BENEFITS OBLIGATION

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

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

	2019	2018	2017
Balance at beginning of year	₱667,200	₱625,500	₱583,800
Retirement provision	-	-	-
Balance at end of year	<b>₱667,200</b>	<b>₱625,500</b>	<b>₱583,800</b>

The provision for retirement benefits in 2019, 2018 and 2017 were included under salaries, wages and employees benefit in the consolidated statements of comprehensive income.

Management believes that the defined benefit obligation computed using the provisions of R.A 7641 is not materially different with the amount computed using the projected unit credit method as required under PAS 19, Employee Benefits.

#### 17. INCOME TAX

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

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

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

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

	2019	2018
NOLCO	₱13,845,889	₱14,871,998
Allowance for:		
Doubtful accounts	57,873,390	34,884,901
Impairment loss	109,550,831	109,550,831
Accrued retirement benefits	200,160	187,650
MCIT	176,687	211,308
Total	181,646,957	159,706,688
Unrecognized deferred tax assets	(181,646,957)	(159,706,688)
	₱ -	₱ -

## 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 June 30.

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	
<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
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	
<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)	(1,118,056)	(612,541)	59,293,970	63,249,173	(c)
Concept Moulding Corp. (CMC)	-	-	3,633,463	4,385,541	(c)
	(1,118,056)	(612,541)	167,987,433	172,694,714	
Allowance for impairment	-	-	(121,182,068)	(58,205,806)	
	(₱1,118,056)	(₱612,541)	₱46,805,365	₱114,488,908	

Category	Amount/Volume		Outstanding Receivable		Terms and Condition
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	
<b>Advances from related parties with common key management</b>					
Diamond Stainless Corp. (DSC)	₱-	₱11,787	₱118,858,010	₱132,858,010	(d)
Plastic City Corp. (PCC)	(542,566)	833,710	87,880,086	91,346,321	(d)
Philippine Estates Corp. (PHES)	-	1,107,832	30,465,392	29,911,475	(d)
International Polymer Corp. (IPC)	2,734,082	17,535,168	21,921,218	29,225,722	(d)

Kenstar Industrial Corp. (KIC)	(273)	–	23,539,858	23,539,858	(d)
Rexlon Realty Corp. (RRC)	-	–	23,187,370	23,187,370	(d)
Pacific Rehouse Corp. (PRC)	-	–	15,540,753	15,540,753	(d)
Ropeman Int'l Corp.	-	–	3,202,528	3,202,528	(d)
Asia Pacific Corp. (APC)	-	–	-	–	(d)
Concept Moulding Corp. (CMC)	-	-	-	–	(d)
	<b>2,191,242</b>	19,488,497	<b>324,595,215</b>	348,812,037	
<b>Advances from stockholders/ key management</b>					
Key management and officers	<b>5,468,771</b>	(34,096,569)	<b>142,481,857</b>	152,733,892	(e)
	<b>₱7,660,014</b>	(₱14,608,072)	<b>₱467,077,073</b>	₱501,545,929	

*(a) Receivable from venturer*

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

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

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

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

*PWL*

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

The Group recognized advances to PWL of ₱105.06 million for the value of the land foreclosed to settle the affiliate loan with the bank.

The advances are unsecured, with no definite terms of repayment and with no guarantee.

*TWGI*

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

- The Group entered into a Consultancy Agreement with TWGI. The agreement was renewed for another two (2) years starting May 1, 2018 to April 30, 2020. Total consultancy fees incurred for the years ended December 31, 2018, 2017 and 2016, amounted to ₱480,000, shown under Professional fees' account in the consolidated statements of comprehensive income.
- 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 starting May 1, 2018 to April 30, 2020. Total rent expense and utilities amounted to ₱150,000 for the years ended December 31, 2018, 2017 and 2016.

*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. The movement in the allowance for ECL is as follows:

	2019	2018
Balance at beginning of year, as previously reported	₱58,205,806	₱58,205,806
Effect on adoption of PFRS 9	55,412,575	55,412,575
Balance at beginning of year, as restated	113,618,381	113,618,381
Provisions for ECL - note 15	7,563,687	7,563,687
At end of year	₱121,182,068	₱121,182,068

*(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 29, 2016, the PN was renewed for another three (3) years and will mature on 2020.

*(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 are payable in cash upon settlement.

*(g) Collateral properties held by related parties*

As at June 30, 2019 and 2018, the Group's investment properties with a carrying amount of ₱381.14 million, were used as collateral to secure loans obtained by related parties (see Note 8).

*(h) Remuneration of key management personnel*

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

## **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 ₱5,840,364 and ₱3,569,351 as at June 30, 2019 and 2018, respectively. Deferred rental income relative to the lease amounted to ₱967,725 as at June 30, 2019 and ₱1,804,520 as at June 30, 2018 as shown under "Accounts payable and other liabilities" account (see Note 11).

Outstanding balance of receivable from tenants as at June 30, 2019 and 2018 amounted to ₱5,001,558 and ₱5,544,576, respectively (see Note 5). Total rental income is ₱7,139,532 and ₱11,119,917 in June 30, 2019 and 2018, respectively.

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

On December 17, 2012, PCIC subsidiaries, Pacific Plastic Corp. (PPC), Inland Container Corp. (ICC), Kennex Container Corp. (KCC), MPC Plastic Corp. (MPC) and related parties, Plastic City Corp. (PCC), Westland Pacific Properties Corp. (WPPC), International Polymer Corp. (IPC) and Philippine Estates Corp. (PHES) ("the Landowners"), entered into a Memorandum of Agreement (MOA) with Avida Land Corp. (ALC) for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based a Master Plan determined by ALC.

Under the MOA, the Landowners shall cede, transfer and convey the property including all its rights and interest on the property. The Landowner shall execute the Deed of Conveyance for the entire or certain portions of property and transfer to ALC full vacant physical possession, free and clear of informal

settlers, occupants and encumbrances as may be required in accordance with the development schedule of ALC.

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

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

As at June 30, 2019 and 2018, respectively, the outstanding balance of installment contract receivable amounted to ₱57,316,896, representing unpaid portion of the total contract price.

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

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

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

As at June 30, 2019, properties covered by the MOA has not been transferred to ALC pending the resolution of corporate rehabilitation filed by the Group (see Note 1).

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

Based on management assessment, the Group's installment contact receivable are fully collectible since the corporate rehabilitation was already resolved during the year (Note 1).

## **21. INCOME/(LOSS) PER SHARE**

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

	2019	2018	2017
Consolidated net loss for the quarter	<b>(₱4,218,914)</b>	(₱3,433,507)	(₱3,642,327)
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>(₱0.0013)</b>	(₱0.0010)	(₱0.0011)

## **22. CONTINGENCIES**

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

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

The Group's filed several collection cases with third parties for the claims of certain amounts. Decisions were already reached by the court for collection of the sum of ₱1,476,534, however, execution was pending as at June, 2019 and 2018.

On June 24, 2019, Wellex Industries, Inc. (formerly known as Republic Resources and Development Corp.) filed a civil case no. 3185-19 versus Macquarie Green Properties, Inc, the Provincial Government of Rizal, the Provincial Treasurer of Rizal and the Register of Deeds for Marikina City for the annulment of public auction sale, reconveyance, cancellation and reinstatement of title and damages related to the company's property with TCT No. 330603 situated in Macabud, Rodriquez, Rizal with an area of 49,884 square meters. This is fully disclosed in Note 8.

### **23. 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:

<b>Category</b>	<b>Description</b>	<b>Basis for recognizing ECLs</b>	<b>Base</b>	<b>Minimum allowance for credit losses</b>	<b>Stage</b>
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 past due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	50%	15%	3
	Amount is over 2-3 years past due or there is evidence indicating the asset is credit impaired	Lifetime ECL-credit impaired	100%	15%	3
	Amount is over 3-5 years past 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:

	2019	2018
Cash, excluding cash on hand – note 4	₱5,091,824	₱1,404,613
Trade and other receivables, at net amount - note 5	53,834,433	78,131,519
Installment contract receivable	57,316,896	57,316,896
Advances to related parties, at net amount - note 18	46,805,365	114,488,908
	<b>₱163,048,518</b>	<b>₱251,341,936</b>

The aging of financial assets is shown below:

June 2019	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	₱5,091,824	₱-	₱-	₱-	₱-	₱5,091,824
Trade and other receivables	53,834,433	-	-	-	71,729,232	125,563,665
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	46,805,365	121,182,068	167,987,433
	<b>₱116,243,153</b>	<b>₱-</b>	<b>₱-</b>	<b>₱46,805,365</b>	<b>₱192,911,300</b>	<b>₱355,959,818</b>

June 2018	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
		1-30 days	31-60 days	Over 60 days		
Cash	₱1,424,613	₱-	₱-	₱-	₱-	₱1,424,613
Trade and other receivables	78,131,519	-	-	-	58,077,198	136,208,717
Installment contract receivable	57,316,896	-	-	-	-	57,316,896
Advances to related parties	-	-	-	114,488,908	58,205,806	172,694,714
	<b>₱136,873,028</b>	<b>₱-</b>	<b>₱-</b>	<b>₱114,488,908</b>	<b>₱116,283,004</b>	<b>₱367,644,940</b>

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 analysed on a continuous basis to minimize credit risk associated with these 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 expected loss rates are based on the payment profiles of trade and other receivables, and advances to related parties over a period of sixty (60) months before December 31, 2018 and January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the third parties and related parties to settle the receivables.

Trade and other receivables, and advances to related parties are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and if past due for more than five (5) years.

#### *(c) Installment contract receivable*

The Group reviews compliance by the debtor to agreement and takes into consideration the financial position of the debtor. The Group continuously assesses the compliance of both parties to the covenants attached to the Contract to Sell. The identified impairment loss on installment contract receivable is immaterial, hence no ECL is recognized.

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.

#### **Price risk**

The Group is exposed to price risk on the fluctuation on the price or fair value of AFS financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of AFS financial assets is based on published prices in the market.

If the price of the AFS financial assets had been 10% higher/lower the net income before tax for the year ended June 30, 2019 and 2018 would decrease/increase by ₱1,250,000 and decrease/increase by ₱1,250,000, respectively.

#### **Liquidity risk**

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

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

June 2019	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
<b>Accounts payable and other liabilities - excluding government liabilities</b>	<b>₱-</b>	<b>₱6,313,201</b>	<b>₱-</b>	<b>₱6,313,201</b>

<b>Advances from related parties</b>	<b>467,077,073</b>	-	-	<b>467,077,073</b>
<b>Advances from lessees</b>	-	<b>5,840,364</b>	-	<b>5,840,364</b>
	<b>₱467,077,073</b>	<b>₱12,153,566</b>	-	<b>₱479,230,638</b>

June 2018	With indefinite term of maturity	With definite term of maturity		Total
		Due within one year	More than one year	
Accounts payable and other liabilities – excluding government liabilities	₱-	₱6,617,617	₱-	₱6,617,617
Advances from related parties	501,545,929	-	-	501,545,929
Advances from lessees	-	3,569,351	-	3,569,351
	<b>₱501,545,929</b>	<b>₱10,186,968</b>	<b>₱-</b>	<b>₱511,732,897</b>

Substantial portion of the Group's financial liabilities consist of advances from related parties. There is no specific terms of advances agreed with the related parties. The Group does not expect to pay its liabilities nor expect related parties to collect within twelve (12) months after the reporting date. Furthermore, advances from affiliates and stockholders were settled through assignment and offsetting among the Group.

#### **24. 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 first quarter of 2019, the Group's strategy, which was unchanged from 2018, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at June 30 were as follows:

	<b>2019</b>	<b>2018</b>
Accounts payable and other liabilities	<b>₱12,821,288</b>	₱13,149,545
Advances from lessees	<b>5,840,364</b>	3,569,351
Advances from related parties	<b>467,077,073</b>	501,545,929
Retirement benefits obligation	<b>667,200</b>	625,500
Borrowings	-	-
Gross debt	<b>486,405,925</b>	518,890,325
Cash	<b>(5,111,824)</b>	-1,424,613
Net debt	<b>481,294,101</b>	517,465,712
Total equity	<b>1,201,205,834</b>	1,289,965,077
Total capital	<b>₱1,682,499,935</b>	<b>₱1,807,430,789</b>
Gearing ratio	<b>28.61%</b>	28.63%

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

The Parent Company is subject to externally imposed capital requirement amounting to ₱6,250,000 which is the minimum paid-up capital requirement of SEC for mining companies. As at June 30, 2019 and 2018, 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.

## 25. FINANCIAL INFORMATION

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

	30-Jun-19		30-Jun-18	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets classified as loans and receivables</b>				
Cash, excluding cash on hand	<b>₱5,091,824</b>	<b>₱5,091,824</b>	₱1,424,613	₱1,424,613
Trade and other receivables	<b>53,834,433</b>	<b>53,834,433</b>	78,131,519	78,131,519
Installment contract receivable	<b>57,316,896</b>	<b>57,316,896</b>	57,316,896	57,316,896
Advances to related parties	<b>46,805,365</b>	<b>46,805,365</b>	114,543,604	114,543,604
	<b>₱163,048,518</b>	<b>₱163,048,518</b>	₱251,416,632	₱251,416,632

	30-Jun-19		30-Jun-18	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities classified as other financial liabilities</b>				
Accounts payable and other liabilities - excluding government liabilities	<b>₱6,313,201</b>	<b>₱6,313,201</b>	₱6,617,617	₱6,617,617
Advances from related parties	<b>467,077,073</b>	<b>467,077,073</b>	501,545,929	501,545,929
Advances from lessees	<b>5,840,364</b>	<b>5,840,364</b>	3,569,351	3,569,351
	<b>₱479,230,638</b>	<b>₱479,230,638</b>	₱511,732,897	₱511,732,897

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

### Financial assets

*Cash and trade and other receivable* - The carrying amounts of cash and trade and other receivables approximate fair values due to relatively short-term maturities.

*Advances to related parties* - The fair value of advances to affiliates and stockholders is not reasonably determined due to the unpredictable timing of future cash flows.

*Installment contract receivable* – The carrying amount of installment contract receivable approximates its fair value as this receivable is non-interest bearing.

### Financial liabilities

*Accounts payable and other liabilities* - The carrying amounts of accounts payable and other liabilities are approximate the fair values due to relatively short-term maturities.

*Advances from lessees* - The fair value of advances from lessees is not reasonably determined due to the unpredictable future cash outflow as refund for these amounts. Commonly these advances were applied by tenants to rental.

*Advances from related parties* - The fair value of advances from affiliates and stockholders is not reasonably determined due to the unpredictable timing of future cash flows.

## 26. RECLASSIFICATION

Certain accounts in 2018 consolidated financial statements were reclassified to conform to the current year's presentation.

\* \* \*

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

	30-Jun 2019	30-Jun 2018	30-Jun 2017
<b>Profitability ratios:</b>			
Return on assets	Nil	Nil	Nil
Return on equity	Nil	Nil	Nil
Net profit margin	Nil	Nil	Nil
Gross profit margin	0.57	0.35	0.57
<b>Solvency and liquidity ratios:</b>			
Current ratio	10.32	8.95	5.79
Debt to equity ratio	0.40	0.40	0.36
<b>Financial leverage ratios:</b>			
Asset to equity ratio	1.40	1.40	1.36
Debt to asset ratio	0.29	0.29	0.26
Interest rate coverage ratio	Nil	Nil	Nil

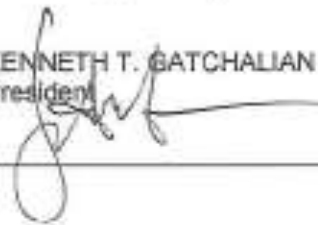
**WELLEX INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**APPENDIX B – ACCOUNTS RECEIVABLE AGING**  
**June 30, 2019**

	Current	1-30 days	31-60 days	Over 60 days	Total
Advances to third parties	₱-	₱-	₱-	₱108,827,147	₱108,827,147
Receivable from related parties				11,215,841	11,215,841
Rental receivable	1,975,809	1,708,309	885,846	431,593	5,001,558
Utilities receivable	176,468	175,623	22,480	84,339	458,910
Others	10,210	50,000	-	-	60,210
Subtotal	₱2,162,488	₱1,933,933	₱908,326	₱120,558,920	₱125,563,665
Impairment - Advances to affiliates					
Allowance for doubtful accounts					(71,729,232)
Accounts receivable					₱53,834,433


SIGNATURE

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

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

Registrant: KENNETH T. GATCHALIAN  
Title: President  
Signature: 

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

Registrant: RICHARD L. RICARDO  
Title: Treasurer  
Signature: 

JUL 31 2019

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

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

Doc. No.: 2  
Page No.: 2  
Book No.: 14  
Series of: 2019

  
ATTY HENRY P. ARASA  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2019  
COMMISSION 17-23  
PASADENA ST., PASAY CITY  
IBP NO. 047427 - 01/03/19 PASIG  
PTR NO. 5826687 - 01/03/19 P.C.  
MCLE COMPLIANCE NO. VI-00020307 4/14/2017  
GROLL NO. 20679