COVER SHEET

A 1 9 9 6 1 0 6 2 0

SEC Registration Number

TKC METALS CORPORATION (Formerly: TKC STEEL CORPORATION) AND SUBSIDIARIES

(Company's Full Name)

Unit B1-A/C, 2nd Flr, Building B, Karrivin Plaza, 2316 Chino Roces Avenue Extension, Makati City

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

Efren A. Realeza Jr.

(Contact Person)

864-0736

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

17-Q

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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TKC METALS CORPORATION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended: **March 31, 2023**
2. Commission identification number **A1996-10620** 3. BIR TIN: **005-038-162-000**

4. Exact name of issuer as specified in its charter **TKC METALS CORPORATION**

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office Postal Code: **1634**

2nd F Unit 201, W Tower Condominium, 39th St., Bonifacio Global City, Taguig City, Philippines

8. Issuer's telephone number, including area code **(02) 864-07-36**

9. Former name, former address and former fiscal year, if changed since last report
TKC Steel Corporation, Unit B1-A&C, 2nd Floor, Bldg. B Karrivin Plaza, 2316 Chino Roces Ave. Ext., Makati City, Philippines

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**940,000,000**

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

Yes **[•]** No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange - 940,000,000 Common

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes **[•]** No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes **[•]** No [ ]

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TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS
March 31, 2023
(With Comparative Figures for December 31, 2022)

	March 31 2023	December 31 2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱10,955,332**	10,487,730
Trade and other receivables (Note7)	**1,672,606,011**	1,671,792,918
Inventories (Note 8)	**0**	0
Due from related parties (Note 14)	**323,527,622**	330,711,200
Other current assets (Note 9 and 10)	**350,838**	2,259,645
Total Current Assets	**2,007,439,803**	2,015,251,493
Noncurrent Assets		
Property, plant and equipment (Note 8)	**1,632,760,580**	1,635,904,979
Leasehold rights (Note 11)	**12,726,667**	13,186,667
Input value-added tax (VAT)	**0**	0
Other noncurrent assets (Note 10)	**0**	0
Total Noncurrent Assets	**1,645,487,247**	1,649,091,646
Total Assets	**₱3,652,927,050**	₱3,664,343,139
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱274,353,316**	₱276,962,282
Loan payable-current (Note 13)	**297,270,080**	297,270,080
Lease liability-current (Note 22)	**0**	0
Due to related parties (Note 14)	**2,806,781,575**	2,799,005,050
Total Current Liabilities	**3,378,404,971**	3,373,237,412
Noncurrent Liabilities		
Loan payable-net of current portion (Note 13)	**0**	0
Deferred tax liabilities-net (Note 24)	**29,210,712**	29,210,712
Lease liability-net of current portion (Note 22)	**0**	0
Retirement benefit liability (Note 19)	**14,346,231**	14,346,231
Total Noncurrent Liabilities	**43,556,943**	43,556,943
Total Liabilities	**3,421,961,914**	3,416,794,355
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 2 and 15)	**940,000,000**	940,000,000
Additional paid-in capital (Note 2)	**1,983,047,906**	1,983,047,906
Retained Earnings/(Deficit)	**(4,113,690,215)**	(4,097,276,640)
Deposits for future subscription (Note 15)	**1,500,000,000**	1,500,000,000
Other equity reserves	**(5,020,472)**	(5,020,472)
Total Equity Attributable to Equity Holders of the Parent	**304,337,219**	320,750,794
Minority interest	**(73,372,083)**	(73,202,010)
Total Equity	**230,965,136**	247,548,784
	₱3,652,927,050	₱3,664,343,139

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2023
(With Comparative Figures for the Three Months Ended March 31, 2022)

	2023	2022
SALES OF STEEL PRODUCTS	₱2,925,000	₱195,231,961
COST OF STEEL PRODUCTS SOLD (Note 16)	9,114,565	189,121,704
GROSS PROFIT	(6,189,565)	6,110,257
OTHER EXPENSES	3,899,994	41,147,533
FINANCE COST	6,492,399	15,121,771
	10,392,393	56,269,304
INCOME BEFORE INCOME TAX	(16,581,958)	(50,159,047)
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	1,690	2,214,917
Deferred		
	1,690	2,214,917
NET INCOME	(16,583,648)	(52,373,964)
Attributable To		
Equity holder of Parent	(16,413,575)	(49,680,092)
Minority interest	(170,073)	(2,693,872)
	(16,583,648)	(52,373,964)
Basic Earnings Per Share	(0.02)	(0.05)

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2023
(With Comparative Figures for the Three Months Ended March 31, 2022)

	2023	2022
NET INCOME	**(₱16,583,648)**	(₱52,373,964)
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	**0**	278,734,392
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(16,583,648)**	226,360,428
Attributable To		
Equity holder of Parent	**(16,413,575)**	203,968,205
Minority interest	**(170,073)**	22,392,223
	(16,583,648)	226,360,428
Basic Earnings Per Share	**(0.02)**	0.24

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2023

	Equity Attributable to Equity Holders of the Parent								
	Capital Stock (Note 14)	Additional Paid-in Capital (Note 2)	Retained Earnings/ (Deficit)	Deposit for Future Subscription (see Note 14)	Cumulative Translation Adjustments	Adjustment to Equity	Total	Minority Interest	Total Equity
Balance at January 01, 2023	**₱940,000,000**	**₱1,983,047,906**	**(₱4,097,276,640)**	**₱1,500,000,000**	**₱1,595,078**	**(₱6,615,550)**	**₱320,750,794**	**₱(73,202,010)**	**₱247,548,784**
Deposits for future subscription	–	–	–		–	-	0	0	0
Translation adjustments during the period	–	–	–		-	–	0	0	0
Business combination	–	–	–		–	–	–	-	-
Net income for the period	–	–	(16,413,575)		–	–	(16,413,575)	(170,073)	(16,583,648)
Balance at March 31, 2023	**₱940,000,000**	**₱1,983,047,906**	**₱(4,113,690,215)**	**₱1,500,000,000**	**₱1,595,078**	**(6,615,550)**	**₱304,337,219**	**₱(73,372,083)**	**₱230,965,136**

	Equity Attributable to Equity Holders of the Parent								
	Capital Stock (Note 2 and 15)	Additional Paid-in Capital (Note 2)	Retained Earnings/ (Deficit)	Deposits For Future Subscription (see Note 15)	Cumulative Translation Adjustments	Adjustment to Equity	Total	Minority Interest	Total Equity
Balance at January 1, 2022	**₱940,000,000**	**₱1,983,047,906**	**(₱5,023,105,035)**	**₱1,500,000,000**	**₱339,774,341**	**(₱46,444,389)**	**₱(306,727,177)**	**₱7,283,238**	**₱(299,443,939)**
Deposits for future subscription	–	–	–				0	0	0
Translation adjustments during the period	–	–	–		250,052,965	–	250,052,965	25,086,095	275,139,060
Business combination	–	–	–		–	–	–	-	-
Net income for the period	–	–	(49,680,092)		–	–	(49,680,092)	(2,693,872)	(52,373,964)
Balance at March 31, 2022	**₱940,000,000**	**₱1,983,047,906**	**₱(5,072,785,127)**	**₱1,500,000,000**	**₱589,827,306**	**₱(46,444,389)**	**₱(106,354,304)**	**₱29,675,461**	**₱(76,678,843)**

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**(₱16,581,958)**	(₱50,159,047)
01Adjustments for:		
Depreciation and amortization	**3,950,461**	7,803,251
Interest expense	**6,492,399**	15,121,771
Interest income	**(8,451)**	(1,678)
Operating income before working capital changes	**(6,147,549)**	(27,235,703)
Decrease (increase) in:		
Trade and other receivables	**(813,093)**	92,824,564
Inventories	**0**	33,897,115
Input value-added tax	**(299,694)**	188,745
Prepayments and other current assets	**2,208,501**	(51,183,613)
Other non-current assets	**0**	(5,908,178)
Increase (decrease) in:		
Trade and other current liabilities	**2,469,146**	(144,846,369)
Accrued retirement expense	**0**	0
Net cash used in operations	**(2,582,689)**	(102,263,439)
Interest paid	**(6,492,399)**	(15,121,771)
Interest received	**8,451**	1,678
Income tax paid	**(5,079,802)**	(10,756,110)
Net cash used in operating activities	**(14,146,439)**	(128,139,642)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	**3,144,399**	380,049,682
Advances to related party	**7,183,578**	(54,711,473)
Leasehold rights	**(3,490,461)**	99,804,681
Decrease (increase) in other noncurrent assets		0
Net cash used in investing activities	**6,837,516**	425,142,890
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Increase (decrease) in due to stockholders	**0**	(740,137,496)
Increase(decrease) in Deferred liability	**0**	2,992,824
Increase(decrease) in long-term liability	**0**	(609,471,548)
Increase(decrease) in due to related parties	**7,776,525**	41,007,081
Increase(decrease) in loans payable	**0**	407,425,385
Proceeds from issuance of capital stocks	**0**	0
Net cash provided by financing activities	**7,776,525**	(898,183,754)
NET FOREIGN EXCHANGE DIFFERENCE	**0**	613,784,830
NET DECREASE IN CASH AND CASH EQUIVALENTS	**467,602**	12,604,324
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**10,487,730**	20,529,533
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱10,955,332**	33,133,857

See accompanying Notes to Consolidated Financial Statements.

Aging of Trade Receivables
As of March 31, 2023

Description	Amount	Current	Past Due 1 - 30 Days	Past Due 31 - 90 Days	Past Due > 90 Days
Trade receivables:					
Export Sales	0	0	0	0	0
Domestic Sales	56,527,829	1,623,375	0	0	54,904,454
Total	56,527,829	1,623,375	0	0	54,904,454
Less allowance for doubtful accounts	-	-	-	-	-
Net Trade and Other Receivables	56,527,829	1,623,375	0	0	54,904,454

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

TKC Metals Corporation (the Parent Company or TKC, formerly TKC Steel Corporation) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on November 28, 1996. TKC's shares of stock were listed for trading in the Philippine Stock Exchange (PSE) on July 20, 2001. The Parent Company is primarily a holding company and is also engaged in marketing and selling of purlins and galvanized iron (GI) sheets. SQL was acquired by Star Equities, Inc. (SEI), a company incorporated in the Philippines on September 13, 2006. SEI, which now owns 70.96% of the Parent Company, intended TKC to be a backdoor listing vehicle for its investment in the steel business. In line with this objective, the board of directors (BOD) and stockholders of SQL approved a resolution to (a) change the primary purpose of business from that of engaging in computer training, consulting services and selling of software licenses to marketing and selling of various steel products, principally, but not limited to billets and, investment holdings, and (b) the corporate name from SQL to TKC Steel Corporation.

On June 22, 2007, the SEC approved the amendments in Article II Primary Purpose of the Parent Company's Articles of Incorporation. Under the amended article, the Parent Company's primary purpose is to invest, operate, own, hold, use, develop, lease, trade, sell, exchange, deal in, on its own behalf or as agent or commission merchant, assign, transfer, encumber, and engage in the business of, either directly or indirectly, smelting, fusing, shaping, rolling, casting, fabricating, extruding or otherwise developing or processing metals, steel or other alloys of metallic, non-metallic or other compounds, substances and raw materials of every nature, kind or description, and to invest in stocks, bonds, or other evidences of indebtedness or securities of any other corporation, domestic or foreign, whether engaged in the steel business.

As part of the business restructuring, SEI transferred its business to the Parent Company. The Parent Company's consolidated financial statements now include the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Nature of Business	Percentage Ownership 2023	2022
Treasure Steel Corporation (Treasure)[a]	Philippines	Manufacture of steel products	98%	98%
Billions Steel International Limited (Billions)[b]	Hong Kong	Investment holdings	_	--
Campanilla Mineral Resources, Inc. (Campanilla)d	Philippines	Mineral production	70%	70%
ZhangZhou Stronghold Steel Works Co. Ltd. (ZZ Stronghold)c	People's Republic of China or PRC	Manufacture of steel pipes	–	--

[a] *Acquired on June 29, 2007 (see Note 2)*
[b] *Acquired on April 30, 2007 (see Note 2)*
[c] *Through Billions Steel*
d Has not commenced commercial operation

TKC and its subsidiaries (the Group) are engaged in the operation of a smelting, melting and rolling plant in the production of billets, its main product.

The details of the change in the capital structure and ownership of the Parent Company as well as the accounting for the foregoing transactions are discussed further.

The Parent Company and its subsidiaries are collectively referred to as “the Group”. Star Equities, Inc. (SEI) owns 70.96% of the Parent Company. The ultimate parent company of TKC is JTKC Equities, Inc. (JEI). Both companies were incorporated in the Philippines.

In June 2022, the Parent Company assigned and transferred all its rights, title and interest in Billions to a third party and recognized a gain on deconsolidation amounting to ₱1,370.7 million

On December 1, 2020, the Board of Directors (BOD) approved the amendment of the Parent Company’s AOI to reduce the number of the Parent Company’s BOD from eleven (11) to seven (7). These were subsequently approved by the stockholders on January 15, 2021.

On December 21, 2018, the Parent Company applied for the amendment of its articles of incorporation for the change of the principal office address. The application for the amendment of its AOI for the change of the principal address is still for approval of the SEC as of the date of this report.

The principal place of business of the Parent Company is 2nd Floor W Tower Condominium 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City.

The registered office address of the Parent Company is Unit B1-A/C, 2nd Floor, Building B, Karrivin Plaza, 2316 Chino Roces Avenue Extension, Makati City.

2. Business Reorganization

The following transactions were consummated from a legal standpoint:

a. Acquisition of Interest in TKC by SEI

On February 9, 2007, in addition to the change in the corporate name from SQL to TKC Steel Corporation, the legal Parent Company (see Note 1), TKC’s shareholders and BOD also approved the increase in authorized capital stock from ₱40.0 million divided into 40 million common shares, with par value of ₱1.00 a share to ₱1.0 billion divided into 1.0 billion common shares, with the same par value. Such increase in authorized capital stock was approved by the SEC on April 13, 2007.

Upon the change in capital structure of TKC on April 13, 2007, SEI subscribed 240.0 million shares of common stock at ₱1.00 a share for a total of ₱240.0 million, out of the increased authorized capital stock. Such subscription increased the outstanding number of common shares to 265.0 million with SEI owning 90.57% of the equity of TKC.

On April 16, 2007, SEI subscribed to an additional 440.0 million common stock at ₱1.00 a share for a total of ₱440.0 million, increasing its holdings to a total of 680.0 million shares out of the total outstanding capital stock of 705.0 million shares representing 96.45% ownership interest in TKC.

On November 23, 2007, additional 235.0 million common stocks were issued by TKC as a follow-on offering. Such issuance decreased the percentage ownership of SEI in TKC to 72.32%.

The movements of shares of stocks are as follows

	Number of Shares	Par	Additional Paid -in Capital
Balance at beginning of period	25,000,000	₱25,000,000	₱3,000,000
Subscriptions during the period:			
April 13, 2007	240,000,000	240,000,000	
April 16, 2007	440,000,000	440,000,000	
November 23, 2007	235,000,000	235,000,000	1,980,047,906
Total subscriptions during the period	915,000,000	915,000,000	1,980,047,906
Balance at end of period	940,000,000	₱940,000,000	₱1,983,047,906

b. Transfer of SEI Subsidiaries to TKC
As discussed in Note 1, SEI had intended the acquisition of the Parent Company as its vehicle for a backdoor listing for its holdings in the steel business. In line with this, SEI consolidated its interests in Treasure and Billions (together with the latter's 90% interest in ZZ Stronghold) as follows:

i) Acquisition by TKC of Billions

On April 30, 2007, a Deed of Sale was executed whereby the majority shareholder group, SEI, sold and transferred all of its interest in Billions to the Parent Company for ₱594,056,700. Billions has a 90% direct interest in ZZ Stronghold. Billions is a limited liability company incorporated under the laws of the Republic of Mauritius. ZZ Stronghold was incorporated on July 13, 2005 and began construction of its facilities thereafter. Its first batch of manufactured steel pipes was completed and sold in June 2007. Commercial operations of ZZ Stronghold began officially after acceptance by the customer of the first batch of steel pipes manufactured and delivered.

ii) Acquisition by TKC of Treasure

On June 29, 2007, SYL Holdings, Inc. and Billions (in-trust for the controlling shareholder group of SEI) each owning 48% in Treasure, collectively transferred their holdings consisting of 479,998 shares and 479,997 shares, respectively, with total par value of ₱95,999,500 to TKC on account. After execution of the Deed of Sale, TKC had 96% direct interest in Treasure (see Note 1).

Accounting for the Business Combination. In accordance with the provisions of Philippine Financial Reporting Standard (PFRS) 3, the acquisition of Treasure and Billions was accounted for as a reverse acquisition as the arrangement was for the two subsidiaries to be "acquired" by a smaller public entity as a means of obtaining a stock exchange listing. Legally however, TKC, as the issuing public entity, is regarded as the Parent Company. From an accounting perspective, Treasure and Billions are considered the "acquirer" since they have the power to govern the financial and operating policies of TKC.

In accordance with the reverse acquisition provisions of PFRS 3, the Group reflected the fair value of the net assets of TKC (the "acquiree" for financial accounting purposes) totaling to ₱696.2 million. TKC also determined the cost of business combination to be ₱708.0 million which is the fair value of the Parent Company's capital stock. The difference between the cost of combination and the fair values of assets and liabilities amounting to ₱11.8 million was accounted for as goodwill and was evaluated for possible impairment.

Goodwill was computed as follows:

	Amount
Cost of business combination	₱708,000,000
Less fair value of net assets of TKC	696,196,597
Goodwill	₱11,803,403

The cash inflow related to the reverse acquisition is as follows:

	Amount
Cash from stock issuance SEI	₱680,000,000
Less cash outflow for the purchase of interest of Billions	(594,056,700)
Net cash inflow	₱85,943,300

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

	Fair Value Recognized on Acquisition	Carrying Value
Assets		
Cash and cash equivalents	₱103,864,584	₱103,864,584
Creditable withholding and input value-added taxes	11,019,765	11,019,765
Investment in subsidiaries	829,372,022	829,372,022
Other assets	10,405,863	10,405,863
	954,662,234	954,662,234
Liabilities		
Trade and other payables	1,466,137	1,466,137
Loan payable	161,000,000	161,000,000
Advances from stockholders and subsidiaries	95,999,500	95,999,500
	258,465,637	258,465,637
Net assets	₱696,196,597	₱696,196,597

Group Reorganization
On January 9, 2009, Billions Steel International Limited (BSIL Mauritius), a company incorporated in Mauritius, sold its entire interest in ZZ Stronghold to Billions HK, a company registered in Hong Kong. Both companies are wholly owned subsidiaries of the Parent Company. The sale was made in line with the group reorganization of Billions for the purpose of rationalizing its group structure. The group reorganization was accounted using pooling of interest method classified as uniting of interests in consideration of the substance of the transaction and since the entities in the transaction are under common control of the Parent Company.

3. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis. The consolidated financial statements are presented in Philippine Peso which is the functional and presentation currency of the Parent Company. All values are rounded to the nearest peso unless otherwise stated.

Statement of Compliance
The financial statements of the Group have been prepared in compliance with PFRS.

Basis of Consolidation
The Group's financial statements comprise the financial statements of the Parent Company and its subsidiaries: Billions, ZZ Stronghold and Treasure. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies.

The functional currency of Treasure is the Philippine Peso, while that of Billions and ZZ Stronghold is the Renminbi (RMB, currency of PRC). The accounts of Billions and ZZ Stronghold have been translated into Philippine Peso at the rate of exchange prevailing at the reporting date.

All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions that are recognized in assets, if any, are eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority interest represents the portion of net assets and profit or loss not held by the Parent Company and is presented separately in the Group's statement of income and within equity in the Group's statement of financial position, separate from equity attributable to equity holders of the Parent Company.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations which are adopted beginning January 1, 2010. The adoption of these new and amended PFRS, PAS and Philippine Interpretations did not have a significant impact to the Group's consolidated financial statements.

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transaction*
- PFRS 3, *Business Combinations* (Revised)
- PAS 27, *Consolidated and Separate Financial Statements* (Amended)
- PAS 39 Amendment - *Eligible Hedged Items*
- Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) 17, *Distributions of Non-Cash Assets to Owners*

The Group conducted an evaluation of the possible impact of the adoption of PFRS 9 and decided that the Group will not early adopt PFRS 9.

The following new and amended standards are applicable to the Company:

- PAS 27 (Amended)
- Amendments to PFRS 7
- PFRS 10
- PFRS 12
- PFRS 13

The Company is currently evaluating the impact of the applicable new and amended standards based on the financial statements as at and for the year ended December 31, 2021.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Improvements to PFRSs 2008
The amendment arising from the 2008 Improvements to PFRSs is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction.

Improvements to PFRSs 2009

- PFRS 5 clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment has no impact on the financial position or financial performance of the Group.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment has no impact on the financial position or financial performance of the Group.

- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment has no impact on the Group's statements of cash flows.

- PAS 36, *Impairment of Assets*, the amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*

<u>Summary of Significant Accounting Policies</u>

<u>Foreign Currency Translation</u>
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The statement of income of ZZ Stronghold (a foreign entity) is translated into the Group's reporting and

functional currency at average exchange rates for the period and the statement of financial position is translated at exchange rate ruling at period end.

Exchange differences arising on monetary items that form part of an entity's net investment in a foreign operation are reclassified to equity (cumulative translation adjustments) in the statement of financial position and are only released to the statement of income upon the disposal of the foreign operation. The individual financial statements of each of the entities included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transaction and balances
For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities are translated in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, at the average PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Business Combination
The business combination and reorganization of the legal subsidiaries, Treasure and Billions (together with ZZ Stronghold), were treated as reverse acquisition and reorganization of companies under common control, respectively, and is thus, accounted for in a manner similar to the pooling-of-interests method. The reverse acquisition involved the "purchase" by the legal subsidiaries, of TKC. This was accounted for using the purchase method. Under the purchase method, the assets, liabilities and contingent liabilities of the identified "acquiree" were measured at fair value with the cost of combination allocated to all identifiable assets and liabilities. Any difference between the cost of combination and fair value of identifiable assets were recognized as goodwill.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, Held-to-maturity (HTM) investments, Available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. As of March 31, 2023 and December 31, 2022, the Group has no outstanding financial assets or financial liabilities at FVPL, AFS investments, and HTM investments.

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for

long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from 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 statement of income in 'Other income.'

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 statement of 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.

Receivables
These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS or Financial assets designated at FVPL.

After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment of such receivables are recognized in 'Provision for impairment losses' in the consolidated statement of income.

The Group's trade and other receivables and due from related parties are classified as receivables.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g., payables, accruals or borrowing).

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

<u>De-recognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or

- 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 a 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 the risk and rewards of the asset but has transferred the 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 original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or 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 de-recognition 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 income.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost
If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Inventories</u>
Inventories are carried at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Finished goods	–	cost includes direct materials and labor, determined using the specific identification method, and a proportion of manufacturing overhead costs based on normal operating capacity excluding borrowing costs; and
Raw and scrap materials and factory supplies	–	purchase cost determined on a first-in, first-out basis.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Net realizable value of raw and scrap materials and factory supplies is the current replacement cost.

When the net realizable value of the inventories is lower than its cost, the inventories are written down to its net realizable value and the difference between the cost and net realizable value of the inventories is charged to 'Miscellaneous expense' account in the statement of income.

<u>Property, Plant and Equipment</u>
Property, plant and equipment are stated at cost, excluding costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when the recognition criteria are met and the present value of the estimated cost of dismantling and removing the asset and restoring the site where the asset is located.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are charged to income in the year the costs are incurred.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation and amortization are computed using the straight-line basis over the following estimated useful lives of the assets:

Building	20 years
Leasehold improvements	3 years or term of lease, whichever is shorter
Machinery and equipment	5 - 10years
Office equipment, furniture and fixtures	3 - 5 years
Tools	3 years
Transportation equipment	5 - 10 years

The useful lives and depreciation and amortization method of the assets are reviewed, and adjusted if appropriate, as of each reporting date, to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the statement of income in the period such is realized.

Construction in-progress represents plant under construction/development and is stated at cost which includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time the relevant assets are substantially available for operational use.

Leasehold Rights

The leasehold rights of Treasure is stated at cost less accumulated amortization and any impairment in value. The amortization of the leasehold rights is computed on a straight-line basis over the term of the lease agreements for 25 years.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs, including exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

For income tax reporting purposes, borrowing costs are treated as deductible expense in the period such are incurred.

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group’s property, plant and equipment, leasehold rights and goodwill.

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset’s (or cash-generating unit’s) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to 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 (or cash-generating unit).

Except for goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the Goodwill relates. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to the groups of cash-generating units. As a result, the lowest level within the Parent Company at which the Goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the Goodwill relates but cannot be allocated. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which Goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the Goodwill relates but cannot be specifically allocated), an impairment loss is recognized.

Provisions

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. When the Group expects some or all of the provisions are to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of reimbursement. 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 assessment 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 an interest expense.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods to customers and when the amount of revenue can be reliably measured.

Interest income
Interest income is recognized on a time proportionate basis that reflects the effective yield on the asset.

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Group include among others the operating expenses on the Group's operation. Expenses are recognized as incurred.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the term of lease.

For income tax reporting purposes, expenses under operating lease arrangements are treated as deductible expenses in conformity with the terms of the lease agreements.

Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax
Deferred income tax is provided, using the balance sheet liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) for Philippine-based entities and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward benefits of unused tax credits from excess MCIT over regular corporate income tax (RCIT) and unused NOLCO can be utilized and as applicable to Philippine-based entities, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Any unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the assets are realized or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

Income tax relating to items recognized directly in equity, if any, is recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Valued-added tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the input tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

<u>Earnings Per Share</u>
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividends or stock splits, if any, declared during the year. Diluted EPS is computed by dividing net income applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of diluted potential common shares.

<u>Contingencies</u>
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6 to the consolidated financial statements.

Standards Issued but not yet Effective
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these amended PFRS and Philippine Interpretation to have significant impact on its consolidated financial statement.

PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

PAS 24, *Related Party Disclosures* (Amended)
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

PFRS 7, *Financial Instruments: Disclosures* (Amendments) - *Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of consolidated financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transaction is undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and de-recognition will be addressed. The completion of this project was expected in early 2011.

Philippine Interpretation IFRIC-14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC-14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment

provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC-15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*
This Interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvement to IFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group, however, expects no impact from the adoption of the following amendments on its financial position or performance:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programs*

4. **Significant Accounting Judgments and Estimates**

The Group's financial statements prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the financial statements and related accompanying notes. In preparing the Group's financial statements, management has made its best judgments and estimates of certain amounts, giving due consideration to materiality.

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's financial statements. Actual results may differ from such estimates.

Judgments
Impairment of Nonfinancial Assets
The Group performs impairment testing of assets when there are indications of impairment. The impairment testing of assets which are not used in operations requires an estimation of its

fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable willing parties. Management estimates the value in use of the cash-generating units in testing impairment of property, plant and equipment and leasehold rights. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and to apply a suitable discount rate in order to calculate the present value of those cash flows.

Operating Leases
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risk and rewards of ownership of these properties which are leased out on operating lease arrangements.

<u>Estimates</u>
a) Impairment losses of trade and other receivables
The Group reviews its trade and other receivable portfolios to assess impairment at each financial position date. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and receivables before the decrease can be identified with an individual trade and other receivable in that portfolio. This evidence may include such observable data as:

- significant financial difficulty of the borrower;
- breach of credit terms such as a default/delinquency in interest or principal payments;
- granting of a concession by the lender to the borrower which the lender would not otherwise consider;
- disappearance of an active market because of financial difficulties or significant market decline for the products of borrowers; and
- adverse changes in the industry or economic conditions.

The Group assessed that there is no impairment on trade and other receivables since there is no such indication of impairment.

b) Impairment of nonfinancial assets
The Group performs impairment testing of assets when there are indications of impairment. The impairment testing of assets which are not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable willing parties.

Management estimates the value in use of the cash-generating units in testing impairment of property, plant and equipment and leasehold rights. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and to apply a suitable discount rate in order to calculate the present value of those cash flows.

c) Realizability of creditable withholding tax and VAT
The carrying amounts of the creditable withholding and input taxes are reduced to the extent that it available to allow all or part of the creditable withholding and input taxes to be utilized.

Any allowance for unrecoverable portion of creditable withholding tax is maintained at a level based on past application experience and other factors that may affect realizability.

As of March 31, 2023 and December 31, 2022 creditable withholding taxes amounted to ₱ 69 million and ₱68 million and input vat for ₱222 million and ₱222 million respectively. An allowance for impairment loss was provided for creditable withholding taxes and Input

Vat in the amount of ₱68 million and ₱222 million respectively due to uncertainty of its benefits as a result of the prolonged in-activity of one of our main steel subsidiaries.

d) Net realizable values of inventories

The Group carries inventories at net realizable value when it is lower than cost due to damage, *physical deterioration, obsolescence, changes in price levels or other causes. The net realizable* value of inventories is reviewed on an annual basis to reflect the accurate valuation in the financial records.

As of March 31, 2023 and December 31, 2022, allowance for inventories amounted to ₱277 million and ₱285 million respectively. As of March 31, 2023 and December 31, 2022, the carrying values of inventories is equivalent to the amount of the allowance for impairment loss.

e) Fair value of financial assets and financial liabilities

The determination of fair value of certain financial assets and liabilities requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the changes in fair value would differ if the Group utilized different valuation methodologies.

f) Impairment of property, plant and equipment and leasehold rights

The Group assesses impairment on property, plant and equipment and leasehold rights whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher between the net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of March 31, 2023and December 31, 2022, an allowance for impairment loss remains at ₱683 million on the Group’s property, plant and equipment.

g) Useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation 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 the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of March 31, 2023 and December 31, 2022, property, plant and equipment amounted to ₱ 1.6 billion and ₱1.6 billion respectively.

h) Impairment of goodwill
The Group's management conducts an annual review for any impairment in value of the goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The impairment on goodwill is determined by comparing (a) the carrying value of goodwill plus the net tangible assets of the merged entity and (b) the present value of the annual projected cash flows for five years computed under the discounted cash flow method.

As of March 31, 2023 and December 31, 2022, goodwill has nil balance due to its write-down.

i) Estimating retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets and future salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

j) Realizability of deferred tax assets
The Group reviews its deferred tax assets at each financial position date and written off the carrying amount as it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. As of March 31, 2023 and December 31, 2022, deferred tax assets amounted to nil.

5. **Financial Risk Management Objectives and Policies**

The Group is exposed to a variety of financial risks. The Group's risk management program focuses on safeguarding shareholder value to manage unpredictability of risks and minimize potential adverse impact on the operating performance and financial position.

The BOD is directly responsible for risk management. Management carries out risk management policies approved by the BOD. The Finance Department of the Group, in coordination with the operating units, identifies, evaluates reports, and monitors significant risks, and submits appropriate recommendations. The BOD approves formal policies for overall risk management, as well as written policies covering specific areas, such as market risk, liquidity risk and credit risk.

Market Risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates and equity prices.

Foreign currency risk
Foreign currency risk arises as a result of change in exchange rates between the Philippine Peso and foreign currencies. Any change will affect the Group's foreign currency denominated accounts and transactions.

At this time, the Group's foreign currency exposure covers operations in the Philippine. The Group regularly monitors foreign exchange rates, and any trends and changes. Measures are adopted to protect its investment in the event there would be significant fluctuations in the exchange rate.

The table below summarizes the Group's exposure to foreign exchange risk. Included in the table are the Group's assets and liabilities at carrying amounts in foreign currency, categorized by currency.

	USD
Assets	
Cash and cash equivalents	2,663
Trade and other receivables	–
Inventories	–
Creditable withholding tax and input value-added tax	–
Prepayments and other current assets	–
Total assets	2,663
Liabilities	
Trade and other payables	–
Due to related parties	–
Total liabilities	–
Net exposure	2,663

Presented below is the sensitivity analysis to demonstrate the impact of assumed changes in the exchange rate between the Philippine Peso and the USD with all other factors constant:

March 31, 2023 Rate of Change in Exchange Rate	Effect on Net Income (in PHP)
+5.0%	7,247
-5.0%	(7,247)
+2.5%	3,624
-2.5%	(3,624)

Interest Rate Risk
Interest rate risk arises from fluctuations in market interest rates. As of March 31, 2023 and December 31, 2022, the Group does not have any re-pricing financial assets or liabilities.

Liquidity Risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet or settle its obligation at a reasonable price. Despite the present operational situation of the Group, our related parties, however, have continued to provide the necessary financial support and funding to meet the Group's maturing obligations.

The Group monitors its risk to a shortage of funds through monitoring of financial investments and financial assets and projected cash flows from operations. The Group's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times: b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

The Group also maintains a financial strategy that the scheduled principal and interest payments are well within the Group's ability to generate cash from its business operations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	Up to 1 month	2 to 3 months	4 to 6 Months	7 to 12 months	Beyond 1 Year	Total
Trade and other payables	₱74,123,199	₱13,753,955	₱105,811	₱50,400	₱3,920,936	₱183,721,791	₱275,676,092
Loans payable	-	299,024,799	0	0	0	₱0	299,024,799
	₱74,123,199	₱312,778,754	₱105,811	₱50,400	₱3,920,936	₱183,721,791	₱574,700,891

Credit risk

With respect to credit risk arising from the financial assets of the Group, 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.

a. Credit risk exposure

The table below shows the gross maximum exposure to credit risk of the Group as of March 31, 2023 and December 31, 2022 without considering the effects of collaterals and other credit risk mitigation techniques.

	2023	2022
Cash and cash equivalents (Note 6)	**₱10,955,332**	₱10,487,730
Trade and other receivables (Note 7)	**1,672,606,011**	1,671,792,918
Due from related parties (Note 14)	**323,527,622**	330,711,200
Refundable deposits	**0**	2,259,645
	₱2,007,088,965	₱2,015,251,493

b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.

The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risk, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

	Philippines
Cash and cash equivalents (Note 6)	₱10,955,332
Trade and other receivables (Note 7)	1,672,606,011
Due from related parties (Note 14)	323,527,622
Refundable deposits	0
	₱2,007,088,965

ii. Concentration by industry

The table below shows the industry sector analysis of the Group's financial assets as before taking into account any collateral held or other credit enhancements.

	Manufacturing	Financial Intermediaries and Others	Total
Cash and cash equivalents (Note 6)	₱–	₱10,955,332	₱10,955,332
Trade and other receivables (Note 7)	1,099,169	1,671,506,842	1,672,606,011
Due from related parties (Notes 14)	0	323,527,622	323,527,622
Refundable deposits	0	–	0
	₱1,099,169	₱2,005,989,796	₱2,007,088,965

c. Credit quality per class of financial assets

As of March 31, 2023, all of the Group's financial assets are neither past due nor impaired.

The table below shows the credit quality per class of financial assets that are neither past due nor impaired, based on the Parent Company's rating system:

	High Grade	Standard Grade	Total
Cash and cash equivalents (Note 6)	₱10,955,332	₱–	₱10,955,332
Trade and other receivables (Note 7)	–	1,672,606,011	1,672,606,011
Due from related parties (Notes14)	–	323,527,622	323,527,622
Refundable deposits	–	0	0
	₱10,955,332	₱1,996,133,633	₱2,007,088,965

Capital Management

The Group is committed to maintaining adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities. The Company Management has submitted to Philippine Stock Exchange a detailed restructuring plan of activities it will undertake and timetable to bring the stockholders' equity back to positive. In addition, the Group has been negotiating with the prospective investors for additional financing to complete the Group's plant construction, diversification using new production technology, resume commercial operation and generate adequate revenues that will result to a better capital position.

The Group regularly monitors its capital position and assesses business conditions to ensure early detection and determination of risks, and its consequent adverse impact. The Group adopts measures, as is deemed necessary and appropriate, to mitigate risks.

It aims to achieve acceptable level of debt-to-equity ratio. This ratio is calculated as total liabilities divided by total equity. The Group's long-term strategy is to sustain a healthy debt-to-equity ratio. On a short-term basis, the Group intends to improve substantially this ratio as reflected, as follows:

	Amount
Total liabilities	₱3,421,961,914
Total equity	230,965,136
Debt-to-equity ratio	14.82:1

The Group's main sources of capital include but are not limited to:

a. Retained earnings, where available
b. Current earnings
c. Debt
d. Share issues

The Group will seek to generate reasonable rate of return on its capital. Corollary to this, the Group's dividend policy will be dictated by the level of retained earnings and ongoing business earnings.

The Group will access the capital market when it is considered necessary. As the Group grows its business, it will retain sufficient flexibility to raise capital to support new business opportunities. It will be prudent in its capital management.

6. Cash and Cash Equivalents

This account consists of:

	2023	2022
Cash in banks	**₱10,945,332**	₱ 10,477,730
Cash on hand	**10,000**	10,000
Short-term deposits	**0**	0
	₱10,955,332	₱10,487,730

Cash in banks earns interest at prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

7. Trade and Other Receivables

This account consists of:

	2023	2022
Trade receivables	**₱1,099,169**	₱55,878,479
Others	**1,671,506,842**	1,615,914,439
	₱1,672,606,011	₱1,671,792,918

Treasure sells to customers on a cash-on-delivery basis. The outstanding balance of the trade receivables account pertains to current sale of raw materials settled by customers with post-dated checks. These checks were subsequently deposited and cleared with the banks.

8. Inventories

This account consists of:

	2023		2022	
	At Cost	**At Net Realizable Value**	At Cost	At Net Realizable Value
Raw materials, spare parts and factory supplies	**₱0**	**₱0**	₱0	₱0
Finished goods	**0**	**0**	0	0
Scrap metals	**0**	**0**	0	0
Work in progress	**0**	**0**	0	0
	₱0	**₱0**	₱0	₱0
Lower of cost and net realizable value		**₱0**		₱0

9. Input Value-added Tax (VAT)

This account consists of:

	2023	2022
Input VAT	**₱270,445**	₱0
Sub-VAT subsidy check	**0**	0
Deferred input VAT – current	**0**	0
	₱270,445	₱0

10. Creditable Withholding Tax, Prepayments and Other Current Assets

This account consists of:

	2023	2022
Creditable withholding tax	**₱29,250**	₱0
Advances to suppliers	**0**	0
Prepaid expenses	**51,144**	0
Refundable deposits	**0**	2,259,645
	₱80,394	₱2,259,645

Advances to scrap suppliers and raw materials suppliers are applied against the purchases of the Group when the scrap or other raw materials are received from the supplier which normally takes five days from the time the advance payment is made.

11. Leasehold Rights

This account consists of:

	Treasure
Cost	
As at January 1	**₱46,000,000**
Leasehold adjustment	**0**
Exchange realignment	**0**
As at March 31, 2023	**46,000,000**
Accumulated Amortization	
As at January 1	**32,813,333**
Amortization during the period	**460,000**
Exchange realignment	**0**
As at March 31, 2023	**33,273,333**
Net book value, March 31, 2023	**₱12,726,667**

Treasure

Treasure has a Memorandum of Agreement (MOA) with Global Ispat Holdings, Ltd and Global Steelworks International, Inc. (lessors, both of whom are unrelated parties) whereby the lessors agree to the complete and absolute surrender of possession of billet making plant located in Iligan City, Lanao del Norte Philippines for a period of 25 years. The MOA was originally entered into between a major shareholder of SEI (who is also a director of the Parent Company) and the lessors. As part of the reorganization, the major shareholder assigned the MOA to Treasure.

Under the terms of the MOA, Treasure shall undertake the following:

- Fully settle and discharge all the claims, liens and encumbrances;
- Rehabilitate the billet steel making plant to adequate operating condition at its exclusive expense;
- Commercially operate such billet steel making plant after the same has been rehabilitated
- Construct and erect cost-effective and practicable civil works in accordance with plant specifications as may be agreed upon by Treasure and the lessors that will segregate and isolate the billet steel making plant; and
- Hold the lessors and all its directors, officers, stockholders, employees, agents and representatives completely free from and clear of any and all real estate taxes, government fees, levies, imposts or other charges that may be imposable on the billet steel making plant or any other taxes, fees, levies, imposts, charges or similar expenses that may arise out of or in connection with the agreement.

Treasure paid the outstanding liens incurred by the former owners and inherited by the lessor pertaining to the billet making plant amounting to ₱46.0 million in 2006. Such amount was recorded as leasehold rights.

12. Trade and Other Payables

This account consists of:

	2023	2022
Trade payables	**₱193,877,508**	₱187,617,000
Accruals	**57,082,737**	58,667,133
Salaries payable	**16,857,589**	16,822,253
Statutory payable	**1,535,482**	5,093,223
Others	**5,000,000**	8,762,673
	₱274,353,316	₱276,962,282

13. Loans Payable

This account represents unsecured loans of the Group from local commercial banks and a local investment house availed in 2022 maturing within one year. Details are as follow:

	Original Currency	Amount of Loan (original currency)	Amount of Loan (in PHP)	Source of Loan	Interest Rate
TKC	PHP	97,377,719	97,377,719	Local bank	8.5%
TSC	PHP	199,892,361	199,892,361	Local bank	8.5%
			297,270,080		

14. Related Party Transactions

<u>Related Parties</u>

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Group, including holding companies, and fellow subsidiaries are related entities of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals and companies associated with these individuals also constitute related entities. Transactions between related parties are based on terms similar of those offered to non-related parties.

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

The following table shows the details of advances from/to related parties:

	2023	2022
Due from related parties		
Advances-Others	**₱323,527,622**	₱330,711,200
Affiliates:	**0**	0
	₱323,527,622	₱330,711,200
Due to related parties		
Stockholder	**₱1,117,496,795**	₱1,133,701,795
Affiliates:	**1,689,284,780**	1,665,303,255
	₱2,806,781,575	₱2,799,005,050

15. **Capital Stock**

Capital stock as of March 31, 2023 consists of:

Common stock - ₱1 par value	
Authorized – 1,000,000,000 shares or ₱1,000,000,000	
Issued and outstanding - 940,000,000 shares (see Note 2)	₱940,000,000

<u>Capital Management</u>

The Group is committed to maintaining adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities. The Company Management has submitted to Philippine Stock Exchange a detailed restructuring plan of activities it will undertake and timetable to bring the stockholders’ equity back to positive. In addition, the Group has been negotiating with the prospective investors for additional financing to complete the Group’s plant construction, diversification using new production technology, resume commercial operation and generate adequate revenues that will result to a better capital position

The Group regularly monitors its capital position and assesses business conditions to ensure early detection and determination of risks, and its consequent adverse impact. The Group adopts measures, as is deemed necessary and appropriate, to mitigate risks.

The Group regards its equity as its capital. The Group is not subject to any externally imposed capital requirement.

16. **Cost of Sales**

This account consists of:

	2023	2022
Direct materials	**₱9,114,565**	₱47,918,982
Energy	**0**	0
Depreciation and amortization	**0**	660,884
Salaries, wages and employee benefits	**0**	724,236
Spare parts and factory supplies used	**0**	280,357
Outside services	**0**	0
Utilities and equipment rental	**0**	694,525
Freight and handling	**0**	0
Fuel and oil	**0**	0
Licenses	**0**	0
Others	**0**	138,842,720
	₱9,114,565	₱189,121,704

Item 2 – MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Parent Company completed a corporate restructuring which consisted of the following:

1. On April 13, 2007 and June 7, 2007, the primary business purpose was changed from providing complete information solutions to operating and holding investments in steel companies;
2. On April 13, 2007, the SEC approved the increase in authorized capital stock from ₱40 million to ₱1 billion;
3. Capital Stock was increased from ₱25 million to ₱705 million;
4. On April 30, 2007, it acquired 90% equity interest in ZZ Stronghold (ZZS), a company located in China;
5. On June 29, 2007, it acquired 96% equity interest in Treasure, a company located in the Philippines.
6. On November 23, 2007, capital stock increase to P940 million after the Follow On Offering.
7. On June 20, 2022, the Parent Company assigned and transferred all its rights, title and interest in Billions to a third party.

In addition to Steps 1 to 7, above, the SEC approved the change in the corporate name from SQL*Wizards, Inc. to TKC Steel Corporation. The Parent Company was originally registered as SQL*Wizards, Inc. with the primary purpose of providing complete information solutions.

On the 26th of October 2015 the SEC approves the change in the Articles of Incorporation in amending the corporate name from TKC Steel Corporation to TKC Metals Corporation.

Star Equities, Inc., SEI (the immediate parent company) intended TKC to be a backdoor listing vehicle for its investments in the steel business. Consistent with the provisions of Philippine Financial Reporting Standard (PFRS) 3, the acquisition of TKC was accounted for as a reverse acquisition as the arrangement was for Treasure Steelworks and ZZS to be "acquired" by a smaller public entity as a means of obtaining a stock exchange listing. Legally, TKC, as the issuing public entity is regarded as the parent company. From an accounting perspective, Treasure and ZZS are considered the "acquirers" since they have the power to govern the financial and operating policies of TKC. The acquisition or transfers of Billions (together with ZZ Stronghold) and Treasure Steelworks (TSC) were considered business reorganization of companies under common control. Accordingly, the acquisitions or transfers were accounted for in a manner similar to the pooling-of-interests method.

The consolidated equity of the group is in a deficit position for the years 2016 and 2017 respectively brought about by the in-activity of a subsidiary. Last July 6, 2018 we received a directive from PSE to submit a detailed plan to bring its stockholders' equity from negative to positive that includes a matching timetable on how the company will accomplish the task. On August 17, 2018, the company submitted its plan of actions to the PSE and was immediately set into motion during the Board of Directors meeting on September 03, 2018 and approved the proposal to increase TKC's authorized capital stock

(ACS) from ₱1 billion to ₱3 billion. The equity restructuring plan was simple wherein current capital deficit will be wiped out by the conversion to equity of ₱2.6 billion advances from stockholders.

Management Plans

Potential Investor

The Company has an ongoing negotiation with an investor group for potential business ventures. The Company is presently exploring new investment opportunities, particularly in technology businesses and broadband internet, business solutions and application to diversify its portfolio and generate revenue to sustain Group's operations and to meet the Group's maturing obligations.

This potential business venture will enable entrepreneurs a full suite of solution to establish and operate their very own broadband company. The project aims to bring seamless connectivity using wired, wireless and VSAT capabilities for all the cities, municipalities and all the networking communities in the country. This will make internet universally accessible for everyone in the Philippines. The service extends from the basic connectivity on-wards to e-learning, e-health, security services, e-commerce and all the opportunities the internet brings.

Big market and major investor opportunity await this project as the demand for the internet services to address our basic needs and services, communications and deliveries continue to be strong amid the significant restrictions and limitations brought about by the Covid-19 Pandemic in our everyday lives. On the revenue streams, we are focusing on three profit centers namely Prepaid Card Sales combined with Subscription, Digital Platform combined with Subscription and Big Data and Analytics.

Equity Restructuring

In 2018, a stockholder assigned ₱1,500.0 million of his advances to Treasure to foreign investors who, in turn, reassigned these advances to the Parent Company and applied the advances against their subscription to the Parent Company's increase in authorized capital stock.

On September 3, 2018, the BOD approved the increase in authorized capital of the Parent Company from ₱1,000.0 million divided into 1,000.0 million shares at ₱1 par value a share, to ₱3,000.0 million divided into 3,000.0 million shares at ₱1 par value a share.

Of the increase in authorized capital stock of ₱2,000.0 million divided into 2,000.0 million shares at ₱1 par value a share, 750.0 million shares will be subscribed by third parties for ₱1,500.0 million against their assigned advances.

On September 3, 2018, the BOD approved the subscription and debt to equity conversion.
On October 25, 2018, the increase in authorized capital stock was approved by the stockholders. The Parent Company applied for the increase in authorized capital stock with the SEC on December 21, 2018. As at report date, the SEC's approval on the increase in authorized capital stock is still pending.

The advances for debt-to-equity conversion was classified as “Deposits for future subscription” under “Equity” in the consolidated statements of financial position.

The Parent Company filed the application for the approval of the proposed increase in authorized capital stock with the SEC on December 21, 2018. The Parent has filed a request for reconsideration when the SEC considered the debt- to equity conversion not an acceptable payment for the issuance of the shares of stock. The SEC has not acted on the request. To break the impasse, the BOD of JEI approved to subscribe to the increase and pay for the subscription in cash on May 20, 2022, is substitution of the original subscribers who agreed to subscribe through conversion of their advances to equity. On the same day, the BOD of the Parent Company approved the substitution of the subscribers and mode of subscription.

On May 31, 2022, the Parent Company received cash amounting to ₱1,500.0 million from JEI for its subscription in the substitution of the original subscribers.

Accordingly, on June 8, 2022, the Parent Company refiled the application of the increase in authorized capital stock with the SEC to reflect the substitution of the subscribers including the payment made by JEI through cash.

Organizational Restructuring

The Management is reviewing the current organizational set-up to implement management plans and programs of the Group.

Status of Operations

Because of the continuing losses of ZZ Stronghold, the operating steel subsidiary of Billions, due to low production and sales volume in China, the Parent Company sold all of its interest, title and rights in Billions at cost amounting to ₱1,741.8 million on June 20, 2022. Accordingly, the Group’s management deconsolidated the assets and liabilities of Billions and ZZS Stronghold in the consolidated statement of financial position as at the date when control was lost. The Group only recognized the profit or loss of Billions and ZZ Stronghold from January 1, 2022 up to the date of sale in the consolidated statement of comprehensive income.

Parent Company

The Parent Company is currently undergoing business reorganization and realignment of business opportunities. On December 27,2022, the Parent Company’s BOD approved a resolution to enter into and explore a potential business venture with third parties, particularly in the field of information technology businesses and broadband internet, in order to diversify its portfolio and generate revenue.

The stockholders and all related parties of the Group have continued to provide the financial support to sustain the Group’s operations and meet its maturing obligations. Due to related parties aggregated ₱2,807 million as at March 31, 2023.

Treasure Steelworks

In 2013, Treasure suspended its plant operations (production of steel billets) in Iligan City and terminated its contract with plant employees due to shortage in power supply in Mindanao

On December 29, 2022, the Parent Company's BOD approved to dispose of Treasure and Campanilla, its remaining subsidiaries. Treasure has ceased operations since 2013 while Campanilla has not commenced operations as at December 31,2022.

The Group registered a net loss of ₱16 million for the three months ended March 31, 2023 versus a net loss of ₱52 million for the same period last year. The Group posted a negative gross profit of ₱6.2 million as of the first three months months of 2023 or 201% lower compared to the positive gross profit of ₱6.1 million for the same period in 2022. The consolidated sales of the Group significantly went down to ₱3 million as of first quarter or 98% lower as compared to ₱195 million of same period last year. The resulting performance of the Group was primarily due to the deconsolidation of all the assets and liabilities of ZZS Stronghold and non-operation of our Treasure Steel plant. TSC as previously disclosed ceased operations 8 years ago when the Power Sector Assets and Liabilities Management Corporation (PSALM) could not assure uninterrupted power supply requirements of the company as a result of the widespread power shortage in Mindanao.

The Group's financial condition remains sound and stable despite a decrease of 0.31% in the consolidated total assets from ₱3.66 billion at year-end 2022 to ₱3.65 billion as of March 31, 2023. The Company's property, plant and equipment decreased by 0.20% or ₱ 3 million from ₱1,636 million at year-end 2022 to ₱1,633 million. Cash and cash equivalents increased by 4.46% or ₱0.5 million from ₱10.5 million to ₱11 million. Advances to related parties decreased by 2.17% or ₱7.2 million from ₱331 million to ₱323 million. Other receivables increased by 0.05% or ₱0.8 million from ₱1,672 million to ₱ 1,673 million. Prepayments to other parties decreased by 97% or ₱2.2 million from ₱2.3 million to ₱nil million. Due to inactivity of the Group and the disposal of a subsidiary, some accounts significantly decreased or becomes zero as a result of the provision of impairment losses and deconsolidation of the assets and liabilities of a subsidiary such as trade receivables, inventories, input vat, creditable tax, prepayments and other non-current assets.

The stockholders' equity depreciated by 6.7% or ₱16 million from a positive ₱248 million to ₱231 million as of March 31, 2023 primarily attributable to the net loss of ₱16 million during the first three months.

Total liabilities increased by 0.15% or ₱5.2 million from ₱3.416 billion to ₱3.422 billion. The end balances was primarily due to increases in due to related parties by 0.28% or ₱7.8 million from ₱2,799 million to ₱2,807 million; 0.94% decrease in trade and other payables or ₱2.6 million from ₱277 million to ₱274 million; and loan balances remain constant at ₱ 297 million.

Causes of major movements in financial statements

Balance Sheet Items
(March 31, 2023 vs. December 2022)

Cash and cash equivalents – 4.46% increased from ₱10 million to ₱11 million

Cash and cash equivalents went up by ₱0.5 million as a result of day-to-day operating activity.

Trade and other receivables – 0.05% increased from ₱1,672 million to ₱1,673 million

Trade receivables increased by ₱0.8 million primarily attributable to sale of raw materials and other receivables

Inventories – remains constant from ₱nil million to ₱nil million

The level of inventories remains constant at ₱nil million as a result of 100% provision for allowance for inventory write-down due to ceased operation of our manufacturing plants.

Creditable Withholding Tax – 100% increased to ₱0.3 million

The amount represents the current tax withheld by our customers from miscellaneous collections.

Prepayments and other current assets – 98% decreased from ₱2.2 million to ₱nil million

The decrease was attributable to the 100% collection of refundable deposits for ₱2.2 million.

Property and equipment, net – 0.20% decreased from ₱1,636 million to ₱1,633 million

The decrease of ₱3.1 million was primarily attributable to the depreciation expense for the current period.

Trade and other payables –1% decreased from ₱277 million to ₱274 million

The decrease of ₱3 million in trade and other payables was attributable to the following: increases in accrued payable-dst by 1,509% or ₱21 million; accounts payable trade remains constant; and deposit received by 100% or ₱5 million. There were decreases however on the following accounts: liquidation in accrued expenses by 4.42% or ₱1.6 million; accounts payable-others by 29% or ₱2.5 million; taxes payable by 100% or ₱5.1 million and salaries payable by 56% or ₱21 million.

<u>Due to related parties – 0.28% increased from ₱2,799 million to ₱2,807 million</u>

This account pertains to continuous financial support from the stockholders and all related parties to sustain the various financial requirement of the Group.

<u>Equity –6.7% decreased from ₱247 million to ₱231 million</u>

Capital position depreciated by ₱16 million but remain positive at ₱231 million brought about by the current net losses of ₱16 million for the first three months of 2023.

Income Statement Items
(YTD March 31, 2023 vs. YTD March 31, 2022)

<u>Revenue/Sales – 98.5% decreased from ₱195 million to ₱3 million</u>

Revenue for the first three months of 2023 went down by ₱192 million for the same period a year ago primarily due to non-operation of our production plant and deconsolidation of a subsidiary.

<u>Cost of sales –95% decreased from ₱189 million to ₱9 million</u>

Consolidated cost of sales decreased by ₱180 million that was also attributable and comparable to revenues due to non-operation and deconsolidation of a subsidiary.

<u>Other operating expense – 90% decreased from ₱41 million to ₱4 million</u>

The other operating expenses decreased by ₱37 million primarily due to the non-operation of manufacturing unit, reversal of allowance for inventory write-down and deconsolidation of a subsidiary.

<u>Finance cost –57% decreased from ₱15 million to ₱6 million</u>

The decrease in finance charges by ₱9 million was due to the impact of the market-to-market conditions of certain accounts, bank interest rates and deconsolidation of a subsidiary.

<u>Income tax expense – 100% decreased from ₱2.2 million to ₱nil million</u>

The level of final income tax went down by ₱2.28 million for the first three months of 2023 due to prolonged in-activity and nil production capacity of the Group.

Key Performance Indicators:

The Group's key performance indicators (consolidated figures) are as follow:

	YTD Mar. 31, 2023	YTD Mar. 31, 2022
Revenue Growth (%)	-98 %	66 %
Gross Profit Margin (%)	-212 %	3.13 %
Basic Earnings per share 1/	-0.02	-0.05

	As of Mar. 31, 2023	As of December 31, 2022
Current Ratio 2/	0.60	0.60
Debt-to-Equity Ratio 3/	14.82	13.80
Return on Equity (%) 4/	-7%	-35%

1/ Net income applicable to majority shareholders / weighted average of outstanding common shares
2/ Total current assets / total current liabilities
3/ Total liabilities / equity
4/ Net income / total equity (average)

OTHER MATTERS

a. There were no known trends, demands or uncertainties that will have a material impact on the Group's liquidity. The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months and is not at default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. No significant amounts of trade payables have been unpaid within the stated trade terms.

b. There are no known trends, or events, uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations nor any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

c. There are no material off-balance sheet transactions, arrangements obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.

d. There were no seasonal aspects that had a material impact on the financial condition or results of operations of the Group.

e. Any material commitments for capital expenditure:

   The Parent Company conducted a Follow-On Offering on November 23, 2007 that raised gross proceeds of ₱ 2,275 million to finance expansion and development plans of its two (2) subsidiaries, Treasure Steelworks and ZZ Stronghold.

f. There were no significant elements of income or loss that did not arise from the registrant's continuing operations except as presented in the Management Discussion and Analysis.

PART II - OTHER INFORMATION

Financial Soundness Indicators

	March 31, 2023	December 31, 2022
CURRENT /LIQUIDITY RATIO		
Current assets	2,007,439,803	2,015,251,493
Current liabilities	3,378,404,971	3,373,237,412
Current Ratio	**0.60**	0.60
SOLVENCY RATIO		
Net loss before depreciation and amortization	(12,633,187)	946,810,792
Total liabilities	3,421,961,914	3,416,794,355
Solvency Ratio	**(0.01)**	0.60
DEBT TO EQUITY RATIO		
Total liabilities	3,421,961,914	3,416,794,355
Total equity	230,965,136	247,548,784
Debt to Equity Ratio	**14.82**	13.80
ASSET TO EQUITY RATIO		
Total assets	3,652,927,050	3,664,343,139
Total equity	230,965,136	247,548,784
Asset to Equity Ratio	**15.82**	14.80
INTEREST COVERAGE RATIO		
Earnings before interest and taxes	(10,089,559)	972,597,276
Interest Expenses	6,492,399	42,130,500
Interest Coverage Ratio	**(1.55)**	23.09
PROFITABILITY RATIO		
Net Loss	(16,583,648)	915,112,117
Average equity	(239,256,960)	(25,947,578)
Return on Equity	**(0.07)**	(35.27)

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: TKC Metals Corporation
By:

Efren A. Realeza Jr.
Chief Finance Officer
July 17, 2023