COVER SHEET

A1996-10620
SEC Registration Number

TKC METALS CORPORATION

(Company's Full Name)

UNIT B1-A/C, 2F BUILDING B KARRIVIN PLAZA, 2316 CHINO ROCES AVENUE EXTENSION MAKATI

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

ANN MARGARET K. LORENZO

632-0905
Company Telephone Number

12 31
Month Day
Fiscal Year

Month Day
Annual Meeting

Definitive Information Statement (SEC Form 20-IS)

Form Type

Secondary License Type, if applicable

Department 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 I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

TKC METALS

Strength in vision

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO: ALL STOCKHOLDERS

Please take notice that the annual meeting of the stockholders of TKC Metals Corporation (the "Corporation") for 2018 shall be held on **Thursday, 25 October 2018**, at **8:00** in the morning, at the **Magellan Room, 41st Floor, Discovery Suites, 25 ADB Avenue, Ortigas Center, Pasig City**, to consider the following:

AGENDA

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Approval of the Minutes of the Previous Meeting of Stockholders
5. Approval of 2017 Operations and Results
6. Ratification of all Acts of the Board of Directors and Officers
7. Election of Directors
8. Appointment of External Auditors
9. Increase in Authorized Capital Stock and Conversion of Advances to Equity
10. Change in Principal Address
11. Other Matters
12. Adjournment

The Corporation has, in accordance with the By-Laws, fixed the close of business on 17 September 2018 as the record date for the determination of the stockholders entitled to notice of and to vote at such meeting and any adjournment therefore.

Registration for those who are personally attending the meeting will start at 7:30 a.m. and end promptly at 7:50 a.m. All stockholders who will not, are unable, or do not expect to attend the meeting in person are encouraged to fill out, date, sign and send a proxy to the Corporation's Corporate Secretary at **2704 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, 1605 Pasig City**. All proxies should be received by the Corporate Secretary on or before 19 October 2018. Proxies submitted shall be validated by a Committee of Inspectors on 22 October 2018 at 10 o'clock in the morning at the aforementioned address. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, you or your proxy is requested to bring identification paper(s) containing a photograph and signature, *e.g.* passport, driver's license, etc.

City of Pasig, Metro Manila, 3 October 2018.

Very truly yours,

A. BAYANI K. TAN
Corporate Secretary

2nd Floor Unit 201, W Tower Condominium,
39th St., Bonifacio Global City
Taguig City, Philippines 1634
Tel No.: (02) 864-0734; 864-0736; 840-4335
Fax No.: (02) 893-3702

RATIONALE FOR AGENDA ITEMS

Agenda Item No. 4. Approval of the Minutes of the Previous Meeting of Stockholders

Copies of the Minutes of the 27 June 2014 Annual Stockholders' Meeting is posted in the Company's website and will be made available during the ASM. Stockholders will be asked to approve the Minutes of the 2014 Annual Stockholders' Meeting, as recommended by the Board of Directors.

Agenda Item No. 5. Approval of 2017 Operations and Results

A report on the highlights of the performance of the Corporation for the year ended 31 December 2017 will be presented to the stockholders. The same was reviewed by the Audit Committee and the Board of Directors, and have been audited by the external auditors who declared an unqualified opinion on the Audited Financial Statements (AFS). A summary of the 2017 AFS shall also be presented to the stockholders. Stockholders, after identifying themselves, will be given an opportunity to raise questions regarding the report on the operations and results of the Corporation.

Agenda Item No. 6. Ratification of all Acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting to the date of this meeting

All actions, proceedings and contracts entered into, as well as resolutions made and adopted by the Board of Directors and of Management from the date of the last Stockholders' Meeting held on 27 June 2014 to the date of this meeting shall be presented for confirmation, approval, and ratification.

Agenda Item No. 7. Election of Directors for 2018 to 2019

The incumbent members of the Board of Directors, as reviewed, qualified and recommended by the Corporate Governance Committee, have been nominated for re-election. Their proven expertise and qualifications based on current regulatory standards and the Corporation's own norms are expected to help the Company improve its performance that will result to its stockholders' benefit. The profiles of the Directors are further detailed in the Corporation's Information Statement. If elected, they shall serve as such from 7 August 2018 until their successors shall have been duly elected and qualified.

Agenda Item No. 8. Appointment of External Auditors

The Audit Committee has pre-screened and recommended, and the Board has endorsed for consideration of the stockholders, to re-appoint Reyes Tacandong & Co. as the Corporation's External Auditor for 2018-2019. Reyes Tacandong & Co.is one of the leading auditing firms in the country and is duly accredited by the Securities and Exchange Commission. The stockholders will also be requested to delegate to the Board the authority to approve the appropriate audit fee for 2018.

Agenda Item No. 9. Increase in Authorized Capital and Conversion of Advances to Equity

At present, the authorized capital stock of the Corporation is one billion pesos (₱1,000,000,000.00) Philippine Currency, and said capital stock is divided into one billion (1,000,000,000.00) shares with par value of one peso (₱1.00) each. The proposed increase will result in an authorized capital stock of three billion pesos (₱3,000,000,000.00) Philippine Currency, and said capital stock is divided into three billion (3,000,000,000.00) shares with par value of one peso (₱1.00) each. The increase in authorized capital stock, supported by the conversion of advances to equity, will put the Corporation in a better position to more effectively pursue its operations, plans, and projects.

Agenda Item No. 10. Change in Principal Address

The Articles of Incorporation will be amended to reflect the new principal address of the Corporation, "2nd Floor, W Tower Condominium, 39th Street, North Bonifacio Triangle, Bonifacio Global City, Taguig City".

PROXY FORM

The undersigned stockholder of TKC Metals Corporation (the "Company") hereby appoints ____________________________ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on 25 October 2018 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Election of Directors.

____ 1.1. Vote for all nominees listed below:

1.1.1. Ben C. Tiu
1.1.2. Ignatius F. Yenko
1.1.3. A. Bayani K. Tan
1.1.4. Alexander Y. Tiu
1.1.5. Prudencio C. Somera, Jr.
1.1.6. Enrico G. Valdez
1.1.7. Domingo S. Benitez, Jr.
1.1.8. Antonio Jacob A. Elizaga
1.1.9. Victor C. Fernandez (Independent Director)
1.1.10. Vicente V. De Villa (Independent Director)
1.1.11. Pablito C. Bermundo (Independent Director)

____ 1.2. Withhold authority for all nominees listed above
____ 1.3. Withhold authority to vote for the nominees listed below:

_________________ _________________
_________________ _________________

2. Approval of minutes of previous Annual Stockholders' Meeting.
___ Yes ___ No ___ Abstain

3. Approval of 2017 Annual Report.
___ Yes ___ No ___ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Management from date of last Stockholders' Meeting to 25 October 2018.
___ Yes ___ No ___ Abstain

5. Election of Reyes Tacandong & Co. as external auditor.
___ Yes ___ No ___ Abstain

6. Approval of Increase in Authorized Capital Stock (Articles of Incorporation)
___ Yes ___ No ___ Abstain

7. Approval of Change in Principal Address (Articles of Incorporation)
___ Yes ___ No ___ Abstain

8. At their discretion, the proxies named above are authorized to vote upon such other matters as may be properly come before the meeting.
___ Yes ___ No ___ Abstain

____
Printed Name of Stockholder

____
Signature of Stockholder /Authorized Signatory

____
Date

THIS PROXY FORM SHOULD BE RECEIVED BY THE CORPORATE SECRETARY BEFORE THE DATE SET FOR THE ANNUAL MEETING, AS PROVIDED IN THE BY-LAWS.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

Information Statement Pursuant to Section 20
of The Securities Regulation Code

1. Check the appropriate box:
   [ ] Preliminary Information Statement
   [X] Definitive Information Statement

OCT 04 2018

BY: Oyu [illegible]

2. Name of Registrant as specified in its charter
   TKC Metals Corporation

3. Province, country or other jurisdiction of incorporation or organization
   Metro Manila, Philippines

4. SEC Identification Number: **A1996-10620**

5. BIR Tax Identification Code: **005-038-162-000**

6. Address of Principal Office
   Unit B1-A/C, 2nd Floor, Building B, Karrivin Plaza, 2316 Chino Roces Avenue Extension, Makati City

7. Registrant's telephone number, including area code: **(632) 864-0736 / 840-4335**

8. Date, time and place of the meeting of security holders:
   Date: **25 October 2018**
   Time: **8:00 a.m.**
   Place: **Magellan Room, 41st Floor, Discovery Suites, 25 ADB Avenue, Ortigas Center, Pasig City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **4 October 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants)

Title of Each Class	Number of Shares of Common Stock Outstanding (as of 3 October 2018)
Common shares	**940,000,000 shares**

11. Are any or all of registrant's securities listed in a Stock Exchange?
    Yes **[X]** No [ ]

If so disclose name of the Exchange : **The Philippine Stock Exchange, Inc.**
Class of securities listed : **Common Shares**

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY

GENERAL INFORMATION

Item 1. **Date, time and place of meeting of security holders:**

Date: 25 October 2018
Time: 8:00 a.m.
Place: Magellan Room, 41st Floor, Discovery Suites, 25 ADB Avenue, Ortigas Center, Pasig City

The complete mailing address of the Corporation is Unit B1-A/C, 2nd Floor, Building B, Karrivin Plaza, 2316 Chino Roces Avenue Extension, Makati City.

The approximate date on which the information statement is first to be sent or given to security holders is 4 October 2018.

Item 2. **Dissenters' Right of Appraisal**

The Corporation Code of the Philippines, specifically Sections 42 and 81 thereof, gives to a dissenting stockholder who votes against certain corporate actions specified by law, the right to demand payment of the fair market value of the shares, commonly referred to as Appraisal Right.

The following are the instances provided by law when dissenting stockholders can exercise their Appraisal Right:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;

3. In case the Corporation decides to invest its funds in another corporation or business outside of its primary purpose; and

4. In case of merger or consolidation.

Under Section 82 of the Corporation Code, the appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the Corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. However, failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the Corporation shall pay to such stockholder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Corporation, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Corporation within thirty (3) days after such award is made, provided that no payment shall be made to any dissenting stockholder unless the Corporation has unrestricted retained earnings in its books to cover such payment, and that upon payment by the Corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Corporation.

There is no matter or item to be submitted to a vote or acted upon in the annual stockholders' meeting of the Corporation which falls under the instances provided by law when dissenting stockholders can exercise their appraisal right.

Item 3. **Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

a. No current director or officer of the Corporation, or nominee for election as directors of the Corporation or any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than the election of directors.

b. No director or security holders have informed the Corporation, in any form, that he intends to oppose any action to be taken by the Corporation at the meeting.

CONTROL AND COMPENSATION INFORMATION

Item 4. **Voting Securities and Principal Holders Thereof**

A. The Corporation has 940,000,000 outstanding common shares as of 17 September 2018. Each common share shall be entitled to one vote with respect to all matters to be taken up during the annual stockholders' meeting.

B. The record date for determining stockholders entitled to notice of and to vote during the annual stockholders' meeting is on 17 September 2018.

C. In the forthcoming annual stockholders' meeting, stockholders shall be entitled to elect eleven (11) members of the Board of Directors. Each stockholder may vote such number of shares for as many as eleven (11) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by eleven (11) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by eleven (11).

D. Security Ownership of Certain Record and Beneficial Owners

(1) Security Ownership of Certain Record and Beneficial Owners

The following table shows the record and beneficial owners owning more than five percent (5%) of the outstanding capital stock as of 30 September 2018:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Holdings
Common	Star Equities, Inc.* 2/F JTKC Center 2155 Chino Roces	Direct	Filipino	667,000,598	70.96%

	Avenue, Makati City				
Common	PCD Nominee Corporation** 37F Tower 1, The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City	See note	Filipino	264,172,420	28.10%

* Star Equities, Inc. is an investment and holding company incorporated under the laws of The Philippines. Its present Board of Directors is composed of Messrs. Ruben C. Tiu, Dexter Y. Tiu, John Y. Tiu, Jr., Alexander Y. Tiu and Ms. Evelyn T. Lim. The shares held by Star Equities, Inc. shall be voted or disposed of by the persons who shall be duly authorized by the corporation for the purpose. The natural person/s that has/have the power to vote on the shares of the Corporation shall be determined upon the submission of its proxy form to the Company.

** PCD Nominee Corporation ("PCDNC") is a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"). As stated above, the beneficial owners of such shares registered under the name of PCDNC are PCD's participants who hold the shares in their own behalf or in behalf of their clients. The PCD is prohibited from voting these shares. Instead, the participants have the power to decide how the PCD shares are to be voted.

(2) Security Ownership of Directors and Management as of 30 September 2018:

Title of Class	Name of Record/ Beneficial Owner	Amount and Nature of Record/ Beneficial Ownership		Percentage
Common	Tiu, Ben C.	1	Direct	--
Common	Yenko, Ignatius F.	1	Direct	--
Common	Dizon, Anthony S.	1	Direct	--
Common	Tan, A. Bayani K.	1	Direct	--
Common	Tiu Dexter Y.	1	Direct	--
Common	Bermundo, Pablito C.	1	Direct	--
Common	De Villa, Vicente V.	1	Direct	--
Common	Fernandez, Victor C.	1	Direct	--
Common	Somera, Jr., Prudencio C.	1	Direct	--
Common	Tiu, Alexander Y.	1	Direct	--
Common	Valdez, Enrico G.	1	Direct	--

(3) Voting Trust Holders of 5% or more

There is no party known to the Corporation which holds any voting trust or any similar agreement for 5% or more of the Corporation's voting securities.

(4) Changes in Control

The Corporation is not aware of any arrangement which may result in a change in control of the Corporation.

(5) Equity ownership of foreign shareholders is 2,668,601 shares or 0.28% as of 30 September 2018.

Item 5. **Directors and Executive Officers**

The Corporation's Board of Directors is responsible for the overall management of the business and properties of the Corporation. The Board of Directors is composed of eleven (11) members, each of whom serves for a term of one year until his successor is duly elected and qualified.

Name	Position	Age	Citizenship	Period Served
Ben C. Tiu	Chairman	65	Filipino	February 2007 - present
Ignatius F. Yenko	Vice-Chairman	66	Filipino	June 2007 – present
Anthony S. Dizon	President	71	Filipino	April 2007 – present
A. Bayani K. Tan	Corporate Secretary/ Director	63	Filipino	February 2007 - present
Dexter Y. Tiu	Treasurer/Director	46	Filipino	February 2007 - present
Vicente De Villa, Jr.	Independent Director	84	Filipino	April 2007 – present
Pablito C. Bermundo	Independent Director	75	Filipino	January 2011 - present
Victor C. Fernandez	Independent Director	74	Filipino	January 2011 - present
Prudencio C. Somera, Jr.	Director	73	Filipino	April 2007 – present
Alexander Y. Tiu	Director	42	Filipino	April 2007 – present
Enrico G. Valdez	Director	57	Filipino	February 2007 - present

Board of Directors

The following are the incumbent members of the Board of Directors who, with the exception of Messrs. Anthony S. Dizon and Dexter Y. Tiu who have opted not to seek re-election, have likewise been nominated for re-election to the Board for the ensuing year.

The Nomination and Remuneration Committee is composed of Mr. Ignatius Yenko as Chairman and Messrs. Ben C. Tiu and Vicente V. de Villa, Jr. as members. In accordance with the Securities Regulation Code and its Implementing Rules and Regulations, the Nomination and Remuneration Committee met on 3 September 2018 and nominated Messrs. Ben C. Tiu, Ignatius F. Yenko, A. Bayani K. Tan, Vicente De Villa, Jr., Pablito C. Bermundo, Victor C. Fernandez, Prudencio C. Somera, Jr., Alexander Y. Tiu, and Enrico G. Valdez for re-election to the Board. Messrs. Domingo S. Benitez, Jr. and Antonio Jacob A. Elizaga, on the other hand, were nominated by the Nomination and Remuneration Committee during its meeting held on 28 September 2018.

The information on the business affiliations and experiences of the abovenamed incumbent directors and officers, as shown below, are current and/or within the past five years:

Ben C. Tiu, Filipino, 65, is the **Chairman** of the Corporation. Mr. Tiu is also the President of JTKC Equities, Inc., and Union Pacific Ace Industries, Inc. Mr. Tiu is the Chairman of The Discovery Leisure Co., the owner of Discovery Suites Hotel, The Country Suites at Tagaytay and Discovery Shores Boracay. He served as Chairman and CEO of iRemit, Inc. from 2001 until 2004 and as Director from May 2006 to present. He is also Executive Vice President of Hotel System Asia, Inc., JTKC Realties Corporation and Executive Vice President and Treasurer of Aldex Realty Corporation, Inc., Treasurer of TERA Investments, Inc. Mr. Tiu is also a Corporate Nominee in the Philippine Stock Exchange of Fidelity Securities, Inc. and formerly the Chairman of the Board of Sterling Bank of Asia, Inc., and Vice Chairman of the Board and Chairman of the Executive Committee of International Exchange Bank. He holds a Masters in Business Administration from the Ateneo de Manila University and a degree in Mechanical Engineering from Loyola Marymount University, USA.

Anthony S. Dizon, Filipino, 71, is the **President** of the Corporation. He is also currently the President of Koldstor Centre Philippines, Inc. He serves as Director of JAPRL Development Corporation and SD Management Corporation. His socio-civic activities include functioning as President of Cold Chain Association of the Philippines, past Director of Makati Sports Club and Past President of Rotary Club of Makati East. He graduated from the University of the East with a degree of B.S. Electrical

Engineering. He holds a Masters in Business Administration degree from De La Salle University. He also attended the Management Development Program at the Asian Institute of Management.

Ignatius F. Yenko, Filipino, 66, is the **Vice-Chairman** of the Corporation. He is likewise a Director of Sterling Bank of Asia and member of the Executive Committee, IT Committee, Nomination and Compensation Committee and Loan Committee of the bank. He is also a board director of Leisure and Resorts World Corporation (LRWC), a publicly listed corporation, and is a member of the Audit Committee. He was Management Consultant for Cyan Management Corporation from July 2003 to December 2008. He was previously First Vice-President of Philippine Long Distance Telephone Company until his resignation in July 2003. Mr. Yenko was formerly a Vice President at The Chase Manhattan Bank, N.A. where he worked for almost 11 years. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He holds a Master in Business Management degree from the Asian Institute of Management and was a recipient of the Claude M. Wilson National Scholarship Grant.

A. Bayani K. Tan, 63, Filipino, is a **Director and the Corporate Secretary** of the Corporation (since February 2007, Publicly-Listed). He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Pacific Online Systems Corporation (since May 2007, Publicly-Listed), Philequity Dividend Yield Fund, Inc. (since January 2013), Philequity Dollar Income Fund, Inc. (since March 1999), Philequity Fund, Inc. (since June 1997), Philequity Peso Bond Fund, Inc. (since June 2000), Philequity PSE Index Fund, Inc. (since February 1999), Premium Leisure Corporation (since December 1993, Publicly-Listed), Sterling Bank of Asia Inc. (A Savings Bank) (since December 2006), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999), and Vantage Equities, Inc. (since January 1993, Publicly-Listed). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Managing Trustee of SCTan Foundation, Inc. (since 1986), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013) and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011).

Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Dexter Y. Tiu, Filipino, 46, is **Treasurer and Director** of the Corporation. He is the Executive Chairman and CEO of Pure Energy Holdings Corporation. Concurrently, he is also the CEO of Pure Energy's subsidiaries, namely Repower Energy Development Corporation, PureWater Corp., Pure Geothermal Inc., and Just Solar Corp. He is also the President and CEO of Philippine Power and Development Company (established 1927), which owns historically the 3 oldest operating mini hydropower plants in the country. He is also a director of Coal Asia Holdings, JTKC Equities, Inc. and Star Equities, Inc., Vice-Chairman of Zhangzhou Stronghold Steel Works Co., Ltd. (a subsidiary of the Company in China). He earned his Bachelor of Science Degree in Mechanical Engineering from De La Salle University in 1993.

Alexander Y. Tiu, Filipino, 42, is a **Director** of the Corporation. He is President of Goodyear Steel Pipe Corporation and Executive Vice-President of British Wire Industries Corporation and Goodway Marketing Corporation. Mr. Tiu earned his Bachelor's Degree in Economics from Simon Fraser University in 1999.

Enrico G. Valdez, 57, Filipino, is a Director of the Corporation. He is a Partner of Tan Venturanza Valdez, a professional partnership engaged in the practice of law. He finished his Bachelor of Laws Degree from the Ateneo de Manila University in 1987. He is also a Certified Public Accountant; finished his Bachelor of Science in Business Administration & Accountancy from the Philippine School of Business Administration in 1983, and a Masters in Business Administration from the University of the Philippines in 1996. He served as Chairman (2015-17) of the Taxation Committee of the Inter-Pacific Bar Association, an international association of business and commercial lawyers with a focus on the Asia-Pacific region, and a former Director of the Tax Management Association of the Philippines.

Prudencio C. Somera, Jr., Filipino, 73, is a **Director** of the Corporation and with publicly listed Philcomsat Holdings Corporation (2004-present). He was previously a Director of iVantage, Inc. (1998-2000), Acoje Oil Exploration and Minerals Corporation (1997-1999), and Basic Energy Corporation (1997-2008), also publicly-listed corporations. At present a columnist of The Manila Times, and previously with the Philippine Daily Inquirer and BusinessWorld. He holds a Master of Business Administration Degree from the University of the Philippines.

<u>Independent Directors</u>

During its meeting on 3 September 2018, the Nomination and Remuneration Committee endorsed the nominations in favor of Messrs. Bermundo (by Mr. Dexter Tiu), De Villa (by Mr. A. Bayani K. Tan) and Fernandez (by Mr. Enrico G. Valdez). Except as fellow stockholders of the Corporation, the nominees for independent director are not related to the persons nominating them.

The nomination, pre-screening and election of independent directors were made in compliance with the requirements of the Code of Corporate Governance and the Securities and Exchange Commission's Guidelines on the Nomination and Election of Independent Directors which have been adopted and made part of the Corporation's By-Laws.

Vicente V. de Villa, Jr., a Filipino, 84, is an **Independent Director** of the Corporation. He currently holds the position of Chairman and President of VICON Realty Corporation (1972-present), Director of Heavenly Angel Memorial Park (2006-present), EL Message Services (2006-present) and ELAD Telecom Phils., Inc. (2006-present). He is also the Executive Director of EL Enterprises, Incorporated, EL International Holdings (BVI) Limited (1989-present). Likewise, he is a Foreign Representative of JDP International (USA), Central International Corporation (KOREA), NW Technologies International, Inc. (USA) and BSI Corporate Services (ITALY). He holds a Bachelor of Laws Degree from Ateneo de Manila, Padre Faura.

Victor C. Fernandez, Filipino, 74, is an **Independent Director** of the Corporation. He holds a Bachelor of Laws degree from the University of the Philippines (Class of 1971) where he was a member of the Order of the Purple feather (U.P. College of Law Honor Society) and ranked tenth in his class. He has a Bachelor of Arts major in Economics degree from the University of the Philippines (Class of 1967).

Atty. Fernandez is an Independent Director of Manila Jockey Club, Inc., a publicly listed corporation, and an Independent Trustee of SCTan Foundation. He is also a director of Destiny Fund Corporation. In the past, he served as Deputy Ombudsman for Luzon from 2003 to 2010. He also practiced law as Partner in the Fernandez Pacheco & Dizon Law Offices. He served as Commissioner on the Commission on Bar Discipline of the Integrated Bar of the Philippines from 2010 to 2012 and received several awards including the Distinguished Service Award of the Integrated Bar of the Philippines and awarded as the Most Outstanding Commissioner of the Commission on Bar Discipline (1995 to 1997).

Pablito C. Bermundo, Filipino, 75, is an **Independent Director** of the Corporation. He holds a Bachelor of Science degree in Commerce – Accounting and is a Certified Public Accountant. He is currently serving as Executive Director and Chief Operating Officer of Texicon Agriventures Corporation. He is also Director and Chief Financial Officer (CFO) of FAAS Corporation and Director and CFO of POLARA Corporation.

Mr. Bermundo served as Chief Executive Officer of Symrise, Inc., a company that is engaged in the manufacture and marketing of flavors and fragrances. He also served as Chairman of Sicaf Scientific, Inc., and held managerial positions in 3M Philippines as Finance Director and in Procter & Gamble Philippines as Manager of Treasury and Banking Department. He also currently serves as Deputy District Governor, Rotary District 3800 since 2011 and was the President of the Rotary Club of San Juan North from 2006 to 2007.

New Nominees

Below are the profiles on the two new nominees for election to the Board, Messrs. Benitez and Elizaga.

Domingo S. Benitez, Jr.
Domingo S. Benitez, Jr., 62, Filipino, established his own companies in 2009, Domark Engineering (Brunei) and Domark Engineering (Philippines). He was a Business Development Manager (Asia Pacific Region) for Emech Control Pty. from 2006 to 2008. From 2005-2006, he was Project Manager National (New Zealand) for Tyco Flow Pty. Ltd. Prior to that, he was also Business Development and Project Manager for Beaver Company (Brunei) from 1992-2005 and National Technical Services & Product Manager for Philippine Packings and Seals Corp from 1979-1991. Mr. Benitez holds a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Antonio Jacob A. Elizaga serves as a Director of Royal South Industry Development Corporation. He holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology.

Executive Officers

Anthony S. Dizon - President and Chief Operating Officer

A. Bayani K. Tan – Corporate Secretary

Dexter Y. Tiu - Treasurer

Wilfrido O. Gamboa, Filipino, 63, is the **Head of Corporate Services and Chief Compliance Officer** of the Corporation. Before he joined the Corporation, he was president of Fabricom Realty & Development Corporation. Previous experiences of Mr. Gamboa include fund sourcing, rehabilitation planning and debt portfolio restructuring. He has also experiences in the real property sector with tasks including developing new real estate projects. He graduated with a degree of Bachelor of Arts in Economics and Bachelor of Science in Business Administration from De La Salle University.

Efren A. Realeza, Jr, Filipino, 57, is the **Head of Accounting Service**s and OIC-Chief Finance Officer of the Corporation. Prior to joining the Corporation, he was the Audit Manager of VBP Group of Companies-Dermpharma and Dermclinics, Triumph Development Corporation - a cement manufacturing company with overseas operation and Ajinomoto Philippines Corporation and later as Cost Accounting Manager. He managed also the financial performance of the following subsidiaries of APC like Flavor Food Products International Inc., Union Hikari Fertilizer International, Inc. and Global Cebu Foods Corporation. He graduated with a degree of Bachelor of Science in Accountancy from the Polytechnic University of the Philippines. He is a Certified Public Accountant.

Ann Margaret K. Lorenzo, Filipino, 29, is the incumbent **Assistant Corporate Secretary** of TKC Metals Corporation. She is currently the Corporate Secretary of the following companies: GGO Realty Holdings, Inc., Athena Ventures, Inc., and Galileo Software Services Inc. She is likewise the Assistant Corporate Secretary of the following listed companies: Crown Asia Chemicals Corporation, Coal Asia Holdings, Inc., I-Remit, Inc., and Vantage Equities, Inc., and Assistant Corporate Secretary of the following reporting companies: Philequity PSE Index Fund, Inc., Philequity Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., and Philequity Dividend Yield Fund, Inc. She is also Assistant

Corporate Secretary of the following private companies: Philequity Strategic Growth Fund, Inc., Philequity Balanced Fund, Inc., Philequity Resources Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., Aldex Realty Corporation, Oakridge Properties, Inc., Palm Concepcion Power Corporation, Peakpower Energy, Inc., Peakpower Soccsargen, Inc., Peakpower San Francisco, Inc., Etruscan Resources Philippines, Inc., and Tao Mohin Resources, Inc.

Ms. Lorenzo is an Associate at Tan Venturanza Valdez. She obtained her Bachelor of Arts degree in English Studies and Juris Doctor degree from the University of the Philippines in 2010 and 2014, respectively. She was admitted to the Philippine bar in April 2015.

Other Officers

A. Independent Directors

Messrs. Pablito C. Bermundo, Vicente V. de Villa and Victor C. Fernandez, qualify as independent directors of the Corporation pursuant to Rule 38 of the Implementing Rules of the Securities Regulation Code.

In compliance with the requirements of the Securities and Exchange Commission's Guidelines on the Nomination and Election of Independent Directors which have been adopted and made part of the Corporation's By-Laws, the Nomination and Remuneration Committee constituted by the Corporation's Board of Directors composed of Mr. Ignatius Yenko as Chairman and Messrs. Ben C. Tiu and Vicente V. de Villa, Jr. as members, in a meeting held on 3 September 2018, endorsed the respective nominations given in favor of Messrs. Bermundo (by Mr. Dexter Tiu), De Villa (by Mr. A. Bayani K. Tan) and Fernandez (by Mr. Enrico G. Valdez). The Nomination and Remuneration Committee has determined that these nominees for independent directors possess all the qualifications and have none of the disqualifications for independent directors as set forth in Rule 38 of the Implementing Rules of the Securities Regulation Code.

The nominated independent directors are in no way related to the stockholders who nominated them.

B. Significant Employees

The Corporation has no significant employees.

C. Family Relationships

Messrs. Ben Tiu, Dexter Tiu and Alexander Tiu are siblings.

D. Involvement in Certain Legal Proceedings

Atty. A. Bayani K. Tan. As a result of the delay in the delivery of the facilities of the Universal Leisure Club, Inc. (ULCI), some of its members initiated a Complaint for Estafa (I.S. No. 08K-19713) against ULCI, the Universal Rightfield Property Holdings, Inc. and the Universal Leisure Corp., as well as their respective officers and directors, including their former Corporate Secretary, Atty. A. Bayani K. Tan. The Complaint was submitted for resolution in 2009 and was acted upon and dismissed by the City Prosecutor of Manila (OCP) only on March 18, 2013. Complainants belatedly filed motion for reconsideration for which reason, among others, the OCP denied motion on June 16, 2014. A Petition for Review dated March 31, 2014 was filed by the Complainant before the Department of Justice (DOJ). On August 7, 2014, Atty. Tan filed his Comment to the said Petition. In a Resolution dated April 17, 2015, the Petition for Review was denied and the DOJ dismissed the complaint for Estafa.

As of the date of this report, to the best of the Company's knowledge, other than as disclosed above, there has been no occurrence of any of the following events that are material to an evaluation of the ability or integrity of any Director, any nominee for election as director or executive officer of the Company:

- any bankruptcy petition filed by or against any business of which the incumbent directors or senior management of the Company was a general partner or executive officer, either at the time of the bankruptcy or within five years prior to that time;

- any conviction by final judgment in a criminal proceeding, domestic or foreign, pending against any of the incumbent directors or senior management of the Company;

- any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the incumbent directors or senior management of the Company in any type of business, securities, commodities or banking activities; and

- any finding by domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or said regulatory organization, that any of the incumbent Directors or senior management of the Company has violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated.

At present, the Corporation is not a party to any pending material litigation, arbitration or other legal proceedings, and no litigation or claim of material importance is known by Management to have been filed against the Corporation.

E. Certain Relationships and Related Transactions/List of Parents of Corporation

The Corporation entered into the following transactions with related parties:

Date of Execution	Parties	Nature	Cause/Consideration
April 30, 2007	TKC and Star Equities, Inc. (SEI)	Agreement for Assignment of Advances	Acquisition at cost of the entire interest in the advances of SEI in Billions Steel International Limited
June 29, 2007	TKC and Billions	Absolute Deed of Assignment of Shares	Billions assigned all its rights and interests in 479,997 fully paid shares in Treasure Steel (TSC) for a total of consideration of Ps. 47,997,000.00
June 29, 2007	TKC and TSC	Marketing Agreement	TSC appointed TKC as the exclusive sales and marketing channel of all its products and gave TKC the right to enter into agreements with third parties to carry out said purpose. Under the Agreement, both parties acknowledge the existing agreement between TSC and Steel Alliance and thus, TKC assumed all the obligations of TSC to Steel Alliance.

F. Disagreement with Director

None of the directors have resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of security holders because of disagreement with the Corporation on any matter relating to the Corporation's operations, policies or practices.

Item 6. **Compensation of Directors and Executive Officers**

The Executive Officers and Directors' compensation for the years 2016, 2017 and 2018 are presented below:

2016

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Nicanor L. De la Paz Chief Financial Officer			
Wilfrido O. Gamboa Head of Corporate Services and Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	7,676,500		
Aggregate Compensation of all Above-named Officers and Directors	7,676,500		

2017

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Nicanor L. Dela Paz Chief Financial Officer			
Wilfrido O. Gamboa Head of Corporate Services/ Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	5,336,500		
Aggregate Compensation of all Above-named Officers and Directors	5,336,500		

2018 (estimated)

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Wilfredo O. Gamboa Head of Corporate Services / Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	5,336,500		
Aggregate Compensation of all Above-named Officers and Directors	5,336,500		

Note: Members of the Board receive per diem only.

Except for Messrs. Ignatius Yenko and Anthony Dizon, all of the Corporation's directors have not received any form of compensation from inception up to present. They contributed efforts to the Corporation on a voluntary basis.

There is no employment contract between the Corporation and any of its executive officers. In addition, except as provided below, there are no compensatory plans or arrangements with any executive officer/director of the Corporation that will result from the resignation, retirement or termination of such executive officer/director or from a change-in-control in the Corporation.

Item 7. **Independent Public Accountant**

Representatives of the principal accountant (Reyes Tacandong & Co.), the Company's external auditors for the most recently completed fiscal year are expected to be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.

Details on the selected/recommended principal accountant and partner-in-charge for the ensuing year are as follows:

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 1021-AR-2 Group A; Valid until March 27, 2020
BIR Accreditation No. 08-005144-005-2017; Valid until January 13, 2020
PTR No. 6607954 issued January 3, 2018, Makati City

Reyes Tacandong & Co. audited the Company's statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year ended 31 December 2017 and a summary of significant accounting policies and other explanatory notes. Their responsibility is to express an opinion on these financial statements based on their audit. The audits were conducted in accordance with Philippine Standards on Auditing.

Changes in and Disagreements with Accountants on Accounting or Financial Disclosure

Since the appointment of Reyes Tacandong & Co., there has been no change in auditor and there has been no disagreement on accounting and financial disclosures. In compliance with SRC Rule 68 3 (b) (iv), the assignment of Reyes, Tacandong & Co.'s managing partner shall not exceed five (5) years.

The Corporation's Board of Directors reviews and approves the engagement of services of the Corporation external auditors, as recommended by the Corporation's Audit Committee composed of Messrs. Vicente de Villa, Jr. as Chairman, and Dexter Y. Tiu, Pablito B. Bermundo and Alexander Y. Tiu, as members. Engagement Agreements are executed for every type of engagement, which provides for the scope of the work, timetable, fees, engagement team, etc. for each project.

The audit and audit-related fees paid by the Corporation to RT & Co. for the last three years are as follows:

	2017	2016	2015
A. Audit and Audit-related Fees	770,000.00	770,000.00	770,000.00
1. Audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with the statutory and regulatory filings or engagements.	770,000.00	770,000.00	770,000.00

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements	---	---	---
B. Tax fees	---	---	---
C. All other fees	---	---	---

The estimated audit fees for 2018 is ₱770,000

Pursuant to the requirement on Rotation of External Auditors under SEC Memorandum Circular No. 8 Series of 2003, the registrant will recommend the accounting firm of Reyes Tacandong & Co. for reappointment at the scheduled annual meeting.

G. Issuance and Exchange of Securities

There are no matters to be taken up during the Annual Stockholders' Meeting relating to the matters covered by Items 9 to 14.

OTHER MATTERS

Action with Respect to Reports

The Corporation will seek the approval by the stockholders of the Minutes of the previous Stockholders' Meeting during which the following matters were taken up: (1) Call to Order, (2) Proof of Notice and Certification of Quorum, (3) Approval of the Minutes of the Previous Meeting of Stockholders, (4) Reports and Presentation of Audited Financial Statements, (5) Ratification of all Acts of the Board of Directors and Officers, (6) Election of Directors, (7) Approval of Increase of Authorized Capital Stock, (8) Approval of Rights with Warrants Offer, (9) Amendment of Articles of Incorporation to Reflect Change in Name and Change in Principal Address, (10) Appointment of External Auditors, (11) Other Matters and Adjournment.

Management reports will be submitted for approval by the stockholders at the meeting. Approval of the reports will constitute approval and ratification of the acts of management for the past year.

Amendment of Charter, By-laws or Other Documents

Action is to be taken with respect to the increase in Authorized Capital Stock and Change in Principal Address, which require amendments to the Articles of Incorporation which will be submitted to the vote of stockholders.

At present, the authorized capital stock of the Corporation is one billion pesos (₱1,000,000,000.00) Philippine Currency, and said capital stock is divided into one billion (1,000,000,000.00) shares with par value of one peso (₱1.00) each. The increase will result in an authorized capital stock of three billion pesos (₱3,000,000,000.00) Philippine Currency, and said capital stock is divided into three billion (3,000,000,000.00) shares with par value of one peso (₱1.00) each.

The increase in authorized capital stock, supported by the conversion of advances to equity, will put the Corporation in a better position to more effectively pursue its operations, plans, and projects.

The Articles of Incorporation will be further amended to reflect the change in principal address of the Corporation from “Unit B1-A/C, 2nd Floor, Building B, Karrivin Plaza, 2316 Chino Roces Avenue Extension, Makati City” to “2nd Floor, W Tower Condominium, 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City”.

Other Proposed Action

The following are to be proposed for approval during the stockholders' meeting:

1. 2017 Operations and Results;
2. Ratification of all Acts of the Board of Directors and Officers;
3. Election of Directors for 2018-2019;
4. Appointment of Reyes Tacandong & Co. as External Auditors; and
5. Other Matters.

The items covered with respect to the ratification of the acts of the Board of Directors and officers for the past year up to the date of the meeting are those items entered into in the ordinary course of business, with those of significance having been covered by appropriate disclosures such as:

1. Membership in the relevant board committees;
2. Appointment of principal officers at the Organizational Board Meeting; and
3. Approval of Financial Reports.

Management reports which summarize the acts of management for the year 2017 are included in the Company's Annual Report to be sent to the stockholders together with this Information Statement and shall be submitted for approval by the stockholders at the meeting. Accordingly, approval of the Annual Report will constitute approval and ratification of the acts of Management stated in the Management Report during the period covered thereby.

Voting Procedures

(a) Actions to be taken at the Annual Stockholders' Meeting shall require the vote of the stockholders representing at least a majority of the Corporation's outstanding capital stock, except the amendment of the Articles of Incorporation to increase authorized capital stock, which requires a two-thirds vote of holders of outstanding shares.

(b) Two inspectors shall be appointed by the Board of Directors before or at each meeting of the stockholders, at which an election of directors shall take place; if no such appointment shall have been made or if the inspectors appointed by the Board of Directors refused to act or fail to attend then the appointment shall be made by the presiding officer of the meeting.

(c) Stockholders may vote at all meetings either in person or by proxy duly given in writing in favor of any person of their confidence and each stockholder shall be entitled to one vote for each share of stock standing in his name in the books of the corporation; provided, however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner provided for by law. In the forthcoming annual stockholders' meeting, stockholders shall be entitled to elect eleven (11) members to the Board of Directors. Each stockholder may vote such number of shares for as many as eleven (11) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by eleven (11) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by nine

(d) The By-Laws of the Corporation is silent as to the method by which votes are to be counted. In practice, however, the same is done by the raising of hands or *viva voce.* The Corporate Secretary, as assisted by other employees of the Corporation, shall count the votes cast in the forthcoming annual stockholders' meeting.

(e) Upon confirmation by the inspectors that there is a mathematical impossibility for certain nominees to be elected into office based on proxies held and votes present/represented in the meeting, the actual casting and counting of votes for the election of Directors may be dispensed with.

Omitted Items

Items 8, 9, 10, 11, 12, 13, 14, 15, and 16 are not responded to in this report, the Corporation having no intention to take any action with respect to the information required therein.

SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, I hereby certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Makati, Metro Manila on 01 October 2018.

ISSUER: TKC METALS CORPORATION

By:

ANTHONY S. DIZON
President and COO

TKC METALS CORPORATION

PART I - BUSINESS AND GENERAL INFORMATION

Business Development

TKC Metals Corporation (formerly SQL*Wizard, Inc.) was organized and registered with the Securities and Exchange Commission (SEC) on November 28, 1996. SQL was originally incorporated to engage in computer training, consulting services and selling of software licenses and other related information solution services. It was listed then in the Small and Medium Enterprise Board of the Philippine Stock Exchange (PSE) on July 19, 2001.

On January 19, 2007, Star Equities, Inc. (SEI) entered into a Memorandum of Agreement (MOA) with the then major shareholders of SQL*Wizard, Inc., intending the latter to be its backdoor listing vehicle for its investment in the steel business. In line with its plan to shift its business direction to new areas, both foreign and domestic, SQL and its shareholders decided to take advantage of the new investment opportunities that would be brought about by the entry of SEI as an investor in SQL. On this basis, SEI agreed to become a shareholder of SQL by initially subscribing to 240,000,000 new common shares following the increase of the latter's capital stock. Thereafter, with the change of its primary business, SQL was renamed TKC Metals Corporation, as approved by the SEC on February 28, 2007. Likewise, on July 25, 2007, the PSE approved the reclassification of TKC's listing status from the SME Board to the Second Board subject to the conditions specified in the Notice of Approval issued by the PSE. The conditions stated in said notice specifically the minimum number of stockholders and minimum offering to the public given its market capitalization, were complied with after the conduct of a Follow-On Offering of shares by the Corporation which culminated with the listing of the offer shares on November 23, 2007.

Business Consolidation

In meetings held on February 9, 2007, the Board of the Corporation and its shareholders approved the following resolutions:

(a) The amendment of the articles of incorporation, whereby:

i. The primary purpose will be changed to that of a holding company;
ii. The corporate name will be changed from "SQL *Wizard, Inc." to "TKC Steel Corporation";
iii. The principal office may be changed upon the Board's determination;
iv. A provision on the denial of pre-emptive rights will be inserted in the Seventh Article; and
v. The number of directors will be increased from 7 to 9.

(b) The increase in the Corporation's authorized capital stock from P40.0 million, divided into 40 million shares with par value of P1.00 a share to P1.0 billion, divided into 1.0 billion common shares with the same par value.

(c) The subscription by SEI to 240 million common shares at subscription price of P1.00 per share or total subscription price of P240.0 million.

(d) The assignment and/or sale of all and/or substantially all the Corporation's existing IT business assets to a new corporation.

These amendments were approved by the SEC on February 28, 2007, except for the increase in authorized capital stock, which was approved on April 13, 2007.

On June 22, 2007, the SEC approved the amendment to the primary purpose of the Corporation, as follows:

"To invest in, operate, purchase, 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 of metals, steel or other alloys of metallic, non-metallic 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 or otherwise; Provided, that the Corporation shall not engage in the business of an Open End Investment Company as defined in the Investment Company Act (R.A. 2629), without first complying with the provisions of the Revised Securities Act; Provided, Further, that it shall not act as a Broker or Dealer of Securities.

Conformably with the change in business operations, the following transactions were consummated:

(a) Subscription of SEI into TKC

As stated above, SEI subscribed to 240.0 million common shares at P1.00 per share, out of the increase in authorized capital stock by the Corporation. 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 shares, increasing its equity interest to 680.0 million shares out of the total outstanding capital stock of 705.0 million shares representing 96.45% ownership interest in TKC.

(b) Transfer of SEI Subsidiaries to TKC

As disclosed in Note 1 to the consolidated financial statements, SEI intended TKC to be its vehicle for listing of its investments in the steel business. Consistent with this direction, SEI consolidated its interests in Treasure Steelworks (TSC) and Billions Steel International Limited (Billions) (together with the latter's 90% interest in Zhangzhou Stronghold Steel Works Co. Ltd. (ZZS)) as follows:

i) Acquisition of Billions

On April 30, 2007, an agreement was executed whereby major shareholder, SEI, assigned all of its interest in Billions to TKC for P 594,056,700. Billions has a 90% direct interest in ZZS. Billions is a limited liability corporation incorporated under the laws of the Republic of Mauritius. ZZS was incorporated under the laws of the People's Republic of China on July 13, 2005. On January 9, 2009, Billions Steel International Limited, a corporation incorporated in Mauritius sold its entire interest in ZZ Stronghold to Billions Steel International Limited, a corporation registered in Hong Kong. It immediately began construction of its facilities thereafter. Its first batch of manufactured steel pipes was completed and sold in June 2007. Commercial operations of ZZS began officially after acceptance by its customer of the first batch of steel pipes manufactured and delivered.

ii) Acquisition of TSC

On June 29, 2007, SYL Holdings, Inc. and Billions (in-trust for the controlling shareholder group of SEI) each owning 48% in TSC, collectively transferred their shareholdings consisting of 479,998 shares and 479,997 shares, respectively, with the total par value of P95,999,500.00 to TKC on account. After execution of the Deed of Sale, TKC has 96% direct interest in Treasure.

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

Name of Subsidiary	Country of Incorporation	Nature of Business	Percentage of Ownership Direct	Indirect
Treasure Steelworks Corporation (TSC)	Philippines	Manufacture of steel products	98%	–
Billions Steel International Limited (Billions)	Hong Kong	Investment holdings	100%	–
Zhangzhou Stronghold Steel Works Co. Ltd. (ZZS)	People's Republic of China or PRC	Manufacture of steel pipes	–	91%*
Campanilla Mineral Resources, Inc. (Campanilla)**	Philippines	Mineral production	70%	–

** *Through Billions*

** *Has not commenced commercial operations*

Business of Issuer

Products

TKC is engaged in the business of manufacturing and distributing steel products primarily through its two (2) subsidiaries, as follows:

(a) TSC

TSC was incorporated with the primary purpose of operating a smelting, melting and rolling plant, among others. It manufactures steel billets which in turn become the raw materials of downstream steel products such as bars, wire rods and sections.

(b) ZZS

ZZS manufactures the following steel pipes: (i) ERW and spiral welded pipes for general construction, water transmission and structural uses; and (ii) prospectively, seamless pipes for the oil and gas development industry. ZZS offers a wide range of specifications of steel pipes ranging from an outer diameter of 219 mm to 1920 mm, length up to 6 meters long, and thickness from 4mm to 20mm.

Sales generated and the resulting net loss of TKC, TSC and ZZS (China) are presented below, broken down according to major markets (in millions):

(i) Sales

Country	Amount	%
Philippines	Ps. 0.351	0
China	363	100

(ii) Net Loss

Country	Amount	%
Philippines	Ps.783	90
China	84	10

Distribution

Steel billets produced by TSC are primarily sold to local customers. On a limited scale, TSC taps the export market.

Marketing of steel pipes produced by ZZS is outsourced with a marketing company based in Fujian Province. Aside from its sales offices in Xiamen, representative offices have likewise been set up in the cities of Fuzhou and Quanzhou. We have set up an in-house sales group to supplement effort of this marketing company, and to focus on the export market under the direct supervision of the Assistant General Manager. To provide sufficient reach in the international market, ZZS engages the services of affiliate offices and trading houses in various countries like the Philippines, Indonesia, Singapore, the Middle East and North America.

Competition

TSC

TSC has the largest installed capacity for steel billet manufacturing in the Philippines. Other manufacturers produce billets for their own production of downstream steel products.

Top billet producers in the Philippines are

	Annual Installed Capacity (000 MT)
(a) TSC	300
(b) Bacnotan Steel Corp	300
(c) Cathay Pacific Steel Corp	290
(d) Stronghold Steel Corp	150
(e) SKK	120

ZZS

As the first steel producer in the Fujian Province and one of the few major steel pipe producers in Southern China, ZZS has the geographical competitive advantage against producers from Northern China. Our initial marketing thrust in the Chinese domestic market is focused on Fujian Province and the neighboring province of Zhejiang. The target market for ZZS' products can be segmented in terms of product application. Construction and water pipes are primarily intended to supply the needs of the Southern China region, with exports into Southeast Asian countries, such as the Philippines and Singapore. We are even tapping the European market. On the other hand, seamless pipes are geared toward serving the requirements of oil and gas exploration and development activities in different parts of the world.

Raw Materials

Raw materials used to produce billets are scrap sourced from neighboring provinces in Visayas and Mindanao. TSC buys the scrap from major scrap consolidators and their own collection networks. Scrap is old, wasted metal such as parts of vehicles, building supplies, and surplus materials.

Spiral welded pipes are produced from hot rolled steel strip while electric resistance welded pipes are produced from hot rolled steel coils/strips. On the other hand, seamless pipes are produced from billets through a hot draw and extrusion process.

Customer Base

The Corporation and its subsidiaries (TSC and ZZS) are not dependent upon a single or few customers.

Transactions with Related Parties

In the regular course of its business, the Corporation engages in transactions with related parties (stockholders and affiliates). These transactions may involve inter-company trade dealings, and the granting of advances and paying of expenses.

Patents and other Intellectual Property Rights

For marketing and distribution of its corrugated roofing sheets, the Corporation acquired "Philgalume" and "Philgabond" as trademarks from the Bureau of Patents. The renewal of registration has a term of five (5) years until January 26, 2019. Whereas the Corporation's subsidiaries have no patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements covering any of its products and the marketing or distribution thereof.

Government Regulations

TKC and its subsidiaries are not currently required to secure government approval for its products and services. Government approvals and permits, both in China and in the Philippines, are currently, and may in the future be, required in connection with the companies' operations.

Costs and effects of Compliance with Environmental Laws

TSC and ZZS are subject to environmental regulations in their respective jurisdictions. These regulations mandate, among other things, the maintenance of air, noise and water quality standards. They also set forth limitations on the generation, transportation, storage and disposal of solid and liquid hazardous waste.

As part of its efforts to ensure compliance with environmental regulations, the Corporation rehabilitated and upgraded the dust collection system to meet environmental standards, make it more effective and cope with the anticipated increase in production volume resulting from new facilities.

Employees

TKC currently has 10 employees, namely: Vice-Chairman, President and Chief Operating Officer, Chief Financial Officer, Head of Corporate Services/Compliance Officer, Chief Liaison Officer, Chief Logistic Officer, Head of Accounting Services and three (3) Administrative Staff.

Recent Issuance of Securities Constituting an Exempt Transaction

For the year ended December 31, 2017, we have not issued any securities constituting an exempt transaction.

Management Discussion and Analysis of Financial Condition and Results of Operations (Last Three Years: 2017, 2016 and 2015)

a. Corporate Restructuring

The Corporation undertook a corporate restructuring which consisted of the following:

1. On 13 April 2007 and 7 June 2007, the primary business purpose was changed from providing complete information solutions to operating and holding investments in steel companies;
2. On 13 April 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 30 April 2007, it acquired 90% equity interest in ZZ Stronghold (ZZS), a Corporation located in China;
5. On 29 June 2007, it acquired 96% equity interest in TSC, a Corporation located in the Philippines.

In addition to aforementioned Steps 1 to 5, the SEC approved the change in the corporate name from SQL*Wizards, Inc. to TKC Steel Corporation. As mentioned earlier, the Corporation was originally registered as SQL*Wizards, Inc. with the primary purpose of providing complete information solutions.

As disclosed in Note 1 to the consolidated financial statements, SEI (the immediate parent Corporation) has intended the Corporation to be a backdoor listing vehicle for its investment in the steel business. Consistent with the provisions of Philippine Financial Reporting Standard (PFRS) 3, the acquisition of the Corporation was accounted for as a reverse acquisition as the arrangement was for the parent Corporation to be "acquired" by a smaller public entity as a means of obtaining a stock exchange listing. Legally, the Corporation, as the issuing public is regarded as the parent Corporation. From an accounting perspective, SEI is considered the "acquirer" since they have the power to govern the financial and operating policies of the Corporation and its subsidiaries, TSC and ZZ Stronghold (ZZS).

The acquisition or transfers of Billions (together with ZZ Stronghold) and 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.

Risk Management

a. Financial Risks

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

The Corporation's Board of Directors (BOD) is directly responsible for risk management. Management carries out risk management policies approved by the BOD. The Management 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 foreign exchange risk, credit risk and liquidity risk.

Foreign Currency Risk

Foreign currency risk arises as a result of change in exchange rates between Philippine peso and foreign currencies. Any change will affect our foreign currency denominated accounts and transactions.

The Corporation's foreign currency exposure primarily covers operations in PRC. Any fluctuation in the exchange rate between the Philippine Peso and the RMB, PRC's currency, will impact the amount of our investment and related accounts in our China subsidiary.

The Corporation regularly monitors foreign exchange rates and any trends and changes thereupon. Measures will be adopted to protect our investment in the event there would be significant fluctuations in the exchange rate.

Liquidity Risk

Liquidity risk arises from the possibility that the Corporation may encounter difficulties in raising funds to meet or settle its obligations at a reasonable price.

The Corporation monitors potential sources of the risk to a shortage of funds through monitoring of financial investments and financial assets, and projected cash flows from operations. An essential part of this strategy is the proper matching of trade receivables and trade and other payables. The Corporation's objectives to manage its liquidity 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 Corporation also maintains a financial strategy that the scheduled principal and interest payments are well within the Corporation's ability to generate cash from its business operations.

Capital Management Risk

The Corporation is committed to maintaining adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities.

The Corporation regularly keeps track of its capital position and assesses business conditions to ensure early detection and determination of risks, and its consequent adverse impact. The Corporation adopts measures, as may be deemed necessary and appropriate, to mitigate risks.

We aim to achieve acceptable level of debt-to-equity ratio. This ratio is calculated as total liabilities divided by total equity.

Our long-term strategy is to sustain a healthy debt-to-equity ratio. As at December 31, 2017, this ratio is:

	Amount
Total liabilities	Ps. 5,586,730,924
Total equity	-898,723,113
Debt-to-equity ratio	-6.21:1

Our main sources of capital include but not limited to:

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

The Corporation seeks to generate reasonable rate of return on its capital. Corollary to this, our dividend policy will be dictated by the level of retained earnings and ongoing business earnings.

We will access the capital market when we consider it necessary. As we grow our business, we will retain sufficient flexibility to raise capital to support new business opportunities. We are prudent in our capital management.

b. Operational Risks

Fluctuation of Steel Demand and Prices

The industries in which steel are used, such as the construction industry, and the demand for steel products, are cyclical in nature. As a result, the prices at which our products are sold, both in the local and international markets, move in accordance with the local and global steel dynamics. Furthermore, any volatility in the steel prices may affect the normal timing of orders by customers. The volatility in steel prices could cause the Corporation's results of operation to vary and may have an adverse effect on the Corporation's business, financial position, results of operations and prospects.

Similarly, the volatility in the cost of raw materials, scrap for TSC and hot-rolled coils for ZZS, may also cause fluctuations in the results of operations.

We closely monitor demand and price trends, both local and international markets, align our production and sales volumes to desired inventory levels, and put in place measures to ensure that we can access various sources of raw materials.

Single Production Site

Both TSC and ZZS conduct their respective manufacturing activities in single production sites, both in the Philippines and China, respectively. Closure of the production sites, interruption or prolonged suspension of any substantial part of the operations or any damage to, or destruction of, the facilities arising from unexpected events or catastrophes, or other similar events would prevent the operating subsidiaries from generating revenue. All existing facilities have been duly insured. Any new installations will likewise be covered by appropriate insurance coverage.

Scarcity of Raw Materials

Scrap metal is an essential raw material for the production of TSC's end-products. The supply of this raw material is currently sourced locally. Any shortage in supply of scrap metal may adversely affect TSC's operations. TSC is continually expanding its raw material sources to ensure a steady supply. At the same time, we keep good business relationships with scrap consolidators.

There is no foreseeable risk of raw materials scarcity for ZZS which utilizes hot-rolled coils from slabs that are widely available in China.

Insurance Risks

Our businesses are subject to a number of risks and hazards generally, including, but not limited to, adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slop failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and avalanches. Such occurrences may result in damage to production, facilities, personal injury or death, environmental damage to properties or properties of third parties, monetary losses, and possible legal liability.

Insurance coverage is maintained to protect against certain risks in such amounts as are considered reasonable and appropriate.

DESCRIPTION OF PROPERTY

TKC does not own any real or personal property other than its leasehold improvements, office fixtures, furniture and equipment located in its principal office. TSC and ZZS lease the land where their plant facilities are currently situated but they own the machineries and equipment.

Leases

TKC leases its main office located at 2nd Floor W Tower Condominium, 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City. This covers a period of five (5) years which will expire on September 2019.

TSC, as an assignee of Mr. Ben Tiu, leases its billet making plant, including all the equipment and machineries, in Iligan City from Global Ispat Holdings Ltd.

The memorandum of agreement (MOA) is for 25 years starting 2005. At the expiration or earlier termination of the term of the MOA, TSC has the option to purchase the billet plant at an amount equivalent to its market value at the time the option is exercised. The market value shall be determined by three (3) recognized and competent appraisers to be nominated by the parties. However, this does not preclude the parties from arriving at an agreement and determining between them said purchase price.

In the performance of its obligations under the MOA, TSC paid the outstanding liens incurred by the former owners and inherited by the lessor pertaining to the billet making plant amounting to ₱46 million in 2006.

ZZS entered into a contractual agreement with China Merchants ZhangZhou Development Zone Co. Ltd, wherein the lessor transferred the right to use the land located in 1M2-05 Zone I, China Merchants Development Zone to ZZS for a period of 50 years. This is where the existing steel plant facilities of ZZS are located.

Under the original agreement between ZZS and China Merchants Development Zone Co. Ltd., the land has a total area of about 53.3 hectares divided into Phases I, II and III.

During the first semester of 2010, China Merchants, as mandated by the Fujian Provincial Government, made some revisions in the original contract as follows: 1) the term of the lease for Phase 1 was reduced to forty two (42) years from fifty (50) years. ZZ Stronghold received a refund of ₱9.3 million (RMB 1.4 million) during the first quarter of 2010 to reflect the shorter lease term; 2) a portion of the land for Phase 2 (55,089.567 square meters out of the original 179,374.822 square meters) will no longer be delivered; and 3) due to China Merchants' inability to reclaim the land, Phase 3 land will no longer be delivered to ZZ Stronghold. As a consequence of the non-delivery of a portion of Phase 2 land and the entire area of Phase 3, the cost of leasehold rights was reduced by ₱114.0 million and the long term debt was reduced to nil in 2010. ZZS has fully paid for both Phase 1 and 2 land as of the end of 2011.

LEGAL PROCEEDINGS

The Corporation or any of its subsidiaries is not a party to any pending material litigation, arbitration or other legal proceedings, and no litigation or claim of material importance is known by Management to have been filed against the Corporation.

PART II - SECURITIES OF THE REGISTRANT

MARKET INFORMATION

The common shares of the Corporation have been listed on the Philippine Stock Exchange since 19 July 2001. Following the amendment of the articles of incorporation whereby the (a) primary purpose was changed to that of a holding Corporation, (b) corporate name was changed from SQL*Wizard to TKC Steel Corporation, (c) authorized capital stock was increased from ₱40 million (par value of ₱1.00 per share) to ₱1 billion with the same par value, and the assignment and/or sale of all and/or substantially all of the Corporation's existing IT business assets in favor of a new corporation, the Corporation undertook a FOO of 235,000,000 common shares on 23 November 2007 based on the offer price of ₱9.68 per share. After the FOO was completed, the Corporation's total issued and outstanding common shares stood at 940,000,000 shares. The offer shares represented 25% of the Corporation's issued and outstanding common shares.

Presented in the table below are the high and low prices of the Corporation's shares as traded at the PSE for 1st quarter of 2018 and for each quarter within the last two (2) years in 2017 and 2016:

	High	Low
1st Quarter, 2018	1.05	1.04
Year Ended December 31, 2017		
1st Quarter	1.38	1.35
2nd Quarter	1.37	1.35
3rd Quarter	1.28	1.22
4th Quarter	1.19	1.18
Year Ended December 31, 2016		
1st Quarter	1.39	1.24
2nd Quarter	1.96	1.81
3rd Quarter	1.74	1.71
4th Quarter	1.42	1.44

As of 2 October 2018, the Corporation's shares are trading at 1.00 per share.

As of 25 September 2018, the Corporation's shares are trading at the following price:

High	1.00
Low	0.97
Close	0.98
Ave.	0.98

Holders of Common Equity

As of 30 September 2018, the Corporation has a total of 940,000,000 issued and outstanding shares, owned by 46 common shareholders.

As of 30 September 2018, the top twenty (20) shareholders and their corresponding shares and percentage ownership of the Corporation are as follows:

RANK	NAME	CTZN	TOTAL SHARES	PERCENTAGE (%)
1	Star Equities, Inc.	Philippines	667,000,598	70.9575
2	PCD Nominee Corp. - Filipino	Philippines	266,820,021	28.3851
3	Chuahiong, Gertim G.	Philippines	2,912,000	0.3098
4	BA Investments & Holdings, Inc.	Philippines	1,279,730	0.1361
5	Sio, Elsie Chua	Philippines	900,000	0.0957
6	Napoles, Janet L.	Philippines	300,000	0.0319
7	Uy, Francisco A.	Philippines	200,000	0.0213
8	BA Securities, Inc.	Philippines	120,270	0.0128
9	Hernandez, Elmer C.	Philippines	100,000	0.0106
10	Ko, Michael Anthony Lee	Philippines	100,000	0.0106
11	Martin, Francisca S.	Philippines	90,000	0.0096
12	Enrile, William T.	Philippines	50,000	0.0053
13	Bautista, Efren D.	Philippines	20,000	0.0021
14	De Villa, Henrietta	Philippines	20,000	0.0021
15	Chua Co Kiong, William N.	Philippines	15,000	0.0016
16	Resurreccion, Antonio	Philippines	10,000	0.0011
17	Insua, Jose Cesar	Philippines	10,000	0.0011
18	Puno, Orpha C.	Philippines	10,000	0.0011
19	Estrada, Claudia Patricia D.	Philippines	6,250	0.0007
20	Evangelista, Maria Imelda C.	Philippines	6,250	0.0007

Based on the records of our Stock Transfer Agent, Professional Stock Transfer, Inc., the Corporation has 29.0425% public ownership level as of 30 September 2018.

DIVIDENDS

The Corporation did not declare dividends in the past three years.

There are no known restrictions or impediments to the Corporation's ability to pay dividends on common equity, whether current or future.

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES, INCLUDING RECENT ISSUANCE OF SECURITIES CONSTITUTING AN EXEMPT TRANSACTION

For the year ended 31 December 2017, we have not issued any securities constituting an exempt transaction.

PART III - FINANCIAL INFORMATION

- Results of Operations

Accounts In Million Pesos)	2017	2016	2015	Increase (Decrease) 2017/2016 (%)	Increase (Decrease) 2016/2015 (%)
Revenue	364	272	381	34 %	(29%)
Cost of Sales	341	328	299	4 %	10%
Gross Income (Loss)	22	(56)	82	(139 %)	(168%)
Operating Expenses	889	362	180	146%	101%
Net Income	(860)	(419)	(98)	105 %	328 %

Operating performance posted again a net loss for the current year due to the adverse market conditions and the Corporation's focus on its plant modernization and expansion program. The Corporation posted net losses of Ps. 860 million, Ps. 419 million and Ps. 98 million in 2017, 2016 and 2015, respectively, primarily due to lower production and sales volume coupled with lower demand and price in the market.

Despite the very competitive market conditions the total sales also went up by 34% to Ps. 364 million in 2017 compared to Ps. 272 million and Ps.381 million in 2016 and 2015 respectively. The increase in revenue was primarily due to improved production activity and operation of ZZS with some closed contracts in the last quarter both domestic and abroad. ZZS average selling prices of steel is lower due to China's existing steel supply has exceeded the demand resulting to decline in steel prices.

Due to slower production and minimal sales and marketing activity of the Group, total operating expenses went up by 145% from Ps. 362 million in 2016 to Ps. 889 million in 2017. Significant increases were noted in the following accounts as follows: provision for impairment loss on property, plant and equipment by 100%; utilities expense by 128%; taxes and licenses by 690%; professional fees by 780% and interest expense by 12%.

- Financial Condition

Accounts (In Million Pesos)	2017	2016	2015	Increase(Decrease) 2017/2016 (%)	Increase(Decrease) 2016/2015 (%)
Current Assets	1,021	987	1,309	3 %	(25%)
Total Assets	4,688	5,244	5,691	(11 %)	-8 %
Current Liabilities	5,563	5,383	5,421	3 %	-1 %
Total Liabilities	5,593	5,414	5,452	3 %	-1 %
Equity	(898)	(170)	239	428 %	(171 %)

Our total asset base was reduced by 11% to Ps. 4,688 million from the previous year's level of Ps. 5,244 million. The significant decrease was primarily to the 15% decrease in property, plant and equipment from Ps. 4,012 million to Ps. 3,405 million as a result of the current provision for impairment loss for Ps. 683 million; inventories by 5% to Ps. 360 million from Ps.380 million; other current assets and prepayments by 15% from Ps. 30 million to Ps. 25 million.

Current ratio for the years 2017 and 2016 remains stable at 0.2:1 and 0.2:1 respectively while debt-to-equity ratio is -6.18:1 in 2017 from -31.84:1 in 2016.

c. 2017 versus 2016

- **Results of Operations**

The Corporation registered a net loss of Ps. 860 million in 2017 compared to a net loss of Ps. 419 million a year ago. The significant increases in net loss were brought about by the provision of impairment loss in the property, plant and equipment of TSC. Although TSC is non-operating for the last five years, the prospect of having for the right investors is still active as there were several groups who have visited the plant. ZZS recovered in the last quarter and resulted in gross profit however the overall market conditions is still unfavorable coupled with a lower steel prices in China due to higher steel supply but lower demand. TSC as previously reported has nil operation while TKC has minimal production and sales activity resulting to net loss of Ps.742 million and Ps. 281 million respectively.

Revenue increased by 34% to Ps. 364 million compared to a year ago of Ps. 272 million. Of the total sales, ZZS generated Ps. 363 million while TKC recorded only Ps. 0.35 million. TSC has stop operation since 2013 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross profit of Ps. 22 million in 2017 compared to a gross loss of Ps. 56 million in 2016. Although ZZS performance slightly recovered in the last quarter, the general production and marketing activity still depended on a lower market price and demand due to over-supply of steel products in the China market and coupled with the nil operation of TSC, our group losses increased significantly by 105% from Ps. 419 million to Ps. 867 million.

Operating expenses went up by Ps.527 million or 146% higher from the 2016 level of Ps. 362 million. The major factor of increased operating expenses were in the following accounts: a) current provision for impairment loss on property plant and equipment; utilities expense by 128%; taxes and licenses by 690%; professional fees by 780% and interest expense by 12%.

- **Financial Condition**

Total assets went down by 11% to Ps. 4,688 million in 2017 from last year's figure of Ps. 5,244 million. The significant decrease was primarily due to the current provision for impairment loss on property, plant and equipment for Ps. 683 million; inventories by 5% to Ps. 360 million from Ps.380 million; other current assets and prepayments by 15% from Ps. 30 million to Ps. 25 million. The current financial conditions of the Group were attributable significantly due to ZZS minimal operating activity and TSC's nil production, sales and marketing activity primarily due to prolonged power crisis and not so competitive market price and conditions. Current assets accounted for 22% of total assets in 2017 compared to 19% in 2016 resulting in almost the same current ratio of 0.2:1 in 2017.

In 2017, total liabilities went up by 3% or Ps. 172 million from Ps. 5,414 million to Ps. 5,586 million. There were significant increases in trade payable by 6% or Ps. 49 million from Ps. 7680 million up to Ps. 818 million; accrued expenses increased by 144% or Ps. 67 million from Ps. 47 million to Ps. 114 million; loans payable increased by 4% or Ps. 38 million from Ps. 1,010 million to Ps. 1,048 million; and due to related parties 1% or Ps. 37 million from Ps. 3,523 million to Ps. 3,560 million.

Our capital base was adversely affected by the continued non-operation and slower business activity in our two steel subsidiaries coupled with lower steel price and demand and the current provision for impairment loss in the property, plant and equipment resulting to deficit equity of Ps. 898 million compared to Ps. 170 million a year ago. The decline was primarily attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 860 million although this was reduced with a favorable currency translation adjustment of Ps. 130 million. As a result of the decline in capital base, debt to equity ratio went down to -6.18:1 from a year ago of -31.84.

- **Causes for any Material Changes in the Balance Sheet Accounts:**

- Cash and cash equivalents increased slightly by 11% to Ps. 34 million from Ps. 31 million a year ago brought about by the continuing slower market activity.

- Trade and other receivable went up by Ps. 55 million or 26% from Ps. 210 to Ps. 265 million due to last quarter closed sales contract by ZZS both domestic and abroad.

- Inventories slightly went down by Ps. 20 million or 5% from Ps. 380 million to Ps. 361 million due to improved production and sales activity in ZZS.

- Creditable withholding and value-added taxes remain constant at Ps. 295 million respectively for the years 2017 and 2016 primarily due to slower business activities.

- Other current assets went down by Ps. 4 million or 15% from Ps. 30 million to Ps. 25 million due to liquidation of advances from suppliers and prepaid others.

- Property, plant and equipment went down by Ps. 607 million from Ps. 4, 012 million a year ago to Ps. 3,405 or 15% as a result of provision of impairment loss in TSC

- Other non-current assets increased by 69% or Ps. 13 million from a year ago of Ps. 18 million to Ps. 31 million primarily due to advances and deposits to contractors and suppliers.

- Trade and other payables went up by 12% or Ps. 105 million from Ps. 850 million to Ps. 955 million notably in trade payables by 6%; accrued expenses by 144% however there were also significant decreases in deposits received by 100% and other payables account that offset the increases.

- Loans payable was increased by Ps. 38 million or 4% from Ps. 1,010 million to Ps. 1,048 million as a result of short-term renewal of credit facilities of ZZS in relation to their requirement in production and selling activities.

- Equity dropped to negative Ps. 898 million or 428% lower from a year ago of Ps. 170 million as a result of the net loss for the year of Ps.860 million. The group loss was primarily affected by the provision of impairment loss in the group property, plant and equipment for Ps. 683 million although the deficit was reduced with a favorable currency translation adjustments of Ps. 130 million.

d. 2016 versus 2015

- **Results of Operations**

The Corporation registered a net loss of Ps. 419 million in 2016 compared to a net loss of Ps. 98 million a year ago. This significant increase in net loss were brought about by ZZS slowdown in operations, slower sales activity and decline in steel prices in China due to higher steel supply but lower demand. TSC as previously reported has nil operation while TKC has minimal production and sales activity resulting to net loss of Ps.178 million and Ps. 22 million respectively.

Revenue decreased by 29% to Ps. 272 million compared to a year ago of Ps. 381 million. Of the total sales, ZZS generated Ps. 271.9 million while TKC recorded only Ps. 0.43 million. TSC has stop operation since 2013 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross loss of Ps. 56 million in 2016 compared to a gross profit of Ps. 82 million in 2015. As a result of ZZS slowdown in production and sales volume coupled with a lower market price and demand due to over-supply of steel products in China and nil operation of TSC, our group losses increased significantly by 328% from Ps. 98 million to Ps. 419 million.

Operating expenses went up by Ps. 182 million or 101% higher from the 2015 level of Ps. 180 million. The major driver of increased operating expenses were in the following accounts: a) salaries and wages, up by 7% from Ps. 48 million to Ps. 51 million; b) taxes and licenses, up by 12% from Ps. 12 million to Ps. 14 million; c) professional fees, up by 96% from Ps. 1 million to Ps. 2 million; d) inventory obsolescence, up by 1281% from Ps. 7.7 million to Ps. 105 million; e) receivable impairment, up by 1876% from Ps. 1.5 million to Ps. 29 million; and f) other expenses, up by 146% from Ps.7.7 million to Ps. 19 million.

- **Financial Condition**

Total assets went down by 8% to Ps. 5,244 million in 2016 from last year's figure of Ps. 5,691 million. The decrease was due to reduced cash and cash equivalents by 58% or Ps. 31 million from Ps. 73 million; inventories decreased by 20% from Ps. 478 million to Ps. 380 million; prepayments went down by 68% from Ps.95 million to Ps. 30 million; and property, plant and equipment by about 2% or Ps.4,078 million to Ps. 4,013 million. The current financial conditions of the Group were attributable significantly due to TSC's nil production, sales and marketing activity primarily due to prolonged power crisis and not so competitive market price and conditions. Current assets accounted for 19 % of total assets in 2016 compared to 23% in 2015 resulting in a slightly reduced current ratio of 0.2:1 in 2016.

In 2016, total liabilities went down by 1% or Ps. 38 million from Ps. 5,452 million to Ps. 5,414 million. There was a significant liquidation of loans payables by 5% or Ps. 51 million from Ps. 1,061 million down to Ps. 1,010 million; deposits received by 22% or Ps. 5 million from Ps. 24 million to Ps. 18 million; and other payables down by 90% or Ps. 34 million from Ps. 38 million to Ps. 4 million.

Our capital base was affected by the continued non-operation and slower business activity in our two steel subsidiaries coupled with lower steel price and demand resulting in a negative equity of Ps. 170 million compared to Ps. 239 million a year ago. The decline was primarily attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 419 million although this was reduced with a favorable currency translation adjustment of Ps. 9 million. As a result of the decline in capital base, debt to equity ratio went down to -31.79:1 from a year ago of 22.83.

- **Causes for any Material Changes in the Balance Sheet Accounts:**

- Cash and cash equivalents fell by 58% to Ps. 31 million from Ps. 74 million a year ago brought about by the continuing slower market activity and liquidation of local payables.

- Inventories significantly went down by Ps. 98million or 20% due to nil production and sales in TSC.

- Creditable withholding and value-added taxes remain constant at Ps. 295 million respectively for the years 2016 and 2015 primarily due to slower business activities.
- Other current assets went down by Ps. 65 million or 68% from Ps. 95 million to Ps. 30 million due to liquidation of advances from suppliers by 46%; prepaid interest by 99% and prepaid others by 25%.

- Property, plant and equipment went down by Ps. 65 million from Ps. 4, 078 million a year ago to Ps. 4,013 or slightly 2 % as a result of slowdown in business activity.

- Other non-current assets slightly went down by 72% or Ps. 48 million from a year ago of Ps. 67 million to Ps. 18 million primarily due to Ps. 47 million allowance for impairment losses on advances and deposits to contractors and suppliers.

- Trade and other payables went up slightly by 0.2% or Ps. 1.4 million from Ps. 849 million to Ps. 850 million notably in trade payables by 5% from Ps. 733 million to Ps. 768 million; accrued expenses by 5% from Ps. 44 million to Ps. 47 million however there were also decreases in other payables account that offset the increases.

- Loans payable was reduced by Ps. 51 million or 5 % from Ps. 1,061 million to Ps. 1,010 million as a result of partial liquidation of short-term credit facilities of ZZS in relation to their minimal production and selling activities

- Equity dropped to negative Ps. 170 million or 171 % lower from a year ago of Ps. 239 million as a result of the net loss for the year of Ps.419 million although the loss was reduced with a favorable currency translation adjustments of Ps. 9 million.

e. 2015 versus 2014

- Results of Operations

The Corporation significantly recovered by registering a net loss of Ps.98 million in 2015 compared to a net loss of Ps. 231 million a year ago. This was due to ZZS renewed operation: (1) increased production and sales volume (2) slightly lower production cost, and (3) favorable market price which resulted in a positive gross margin of Ps. 82 million. TSC as previously reported has nil operation while TKC has minimal production and sales activity resulting to net loss of Ps. 42 million and Ps. 29 million respectively.

Revenue increased by 34% to Ps. 381 million compared to a year ago of Ps. 284 million. Of the total sales, ZZS generated Ps. 375 million while TKC recorded only Ps. 6 million. TSC has stop operation in 2014 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross profit of Ps. 82 million in 2015 compared to a gross loss of Ps. 32 million in 2014. As a result of ZZS higher production and sales volume coupled with an improve market conditions and lower production cost, our net loss was reduced significantly by 58% from Ps. 231 million to Ps. 98 million.

Operating expenses went down by Ps. 19 million or 10% lower from the 2014 level of Ps. 198 million. The major driver of lower operating expenses were in the following accounts: a) Finance charges, down by 9% from Ps. 79 million to Ps. 72 million; b) taxes and licenses, down by 31% from Ps. 18 million to Ps. 12 million; c) outside services, down by 33% from Ps. 11 million to Ps. 7 million; d) professional fees , down by 72% from Ps. 4 million to Ps. 1 million; e) rental and utilities, down by 27% from Ps. 12 million to Ps. 9 million; and f) office supplies, down by 76% from Ps.1.3 million to Ps.0.3 million.

- Financial Condition

Total assets slightly went down by 1% to Ps. 5,691 million in 2015 from last year's figure of Ps. 5,773 million. The decrease was due to reduced cash equivalents by 31% or Ps. 33 million; inventories decreased by 5% from Ps. 503 million to Ps. 478 million; prepayments went down by 8% from Ps.103 million to Ps. 95 million; and property, plant and equipment by about 1% or Ps.4,108 million to Ps. 4,078 million. The current financial conditions of the Group were attributable significantly due to TSC's nil production, sales and marketing activity primarily due to power crisis and not so competitive market price and conditions. Current assets accounted for 23 % of total assets in 2015 compared to 23% in 2014 resulting in a slightly reduced current ratio of 0.2:1 in 2015.

In 2015, total liabilities slightly went up by Ps. 4 million from Ps. 5,448 million to Ps. 5,452 million. Although there was a significant liquidation of local payables by 10% from Ps. 947 million down to Ps. 849 million this was however offset by an increased in loans payable by 5% from Ps. 1,014 million to Ps. 1,061 million and advances from related parties went up by 2% from Ps. 3,457 million to Ps. 3,511 million.

Our capital base declined to Ps. 239 million compared to Ps. 324 million a year ago. The decline was attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 98 million however this was reduced with a favorable currency translation adjustment Ps. 12 million . As a result of the decline in capital base, debt to equity ratio went up to 22.83:1 from a year ago of 16.81.

- **Causes for any Material Changes in the Balance Sheet Accounts:**

- Cash and cash equivalents fell by 31% to Ps. 74 million from Ps. 108 million a year ago brought about by the continuing slower market activity and liquidation of local payables.

- Inventories significantly went down by Ps. 24 million or 5% due to nil production and sales in TSC.

- Creditable withholding and value-added taxes slightly increased by Ps. 0.7 million or 0.2 % primarily due to slower activities both in production and selling.

- Other current assets went down by Ps. 8 million or 8% due to liquidation of prepayments, deliveries of inventory in transit and refundable deposits.

- Property, plant and equipment went down by Ps. 30 million from Ps. 4,108 million a year ago to Ps. 4,078 or slightly 1 % as a result of slowdown in business activity.

- Other non-current assets slightly went up by 6% from a year ago primarily due to advances and deposits to contractors and suppliers which increased by Ps. 5 million.

- Trade and other payables went down by Ps. 98 million or 10 % due to slowdown in operation and partial liquidation of local and other payables.

- Loans payable went up by Ps. 47 million or 5 % as a result of renewal of short-term credit facilities of ZZS in relation to their renewed production and selling activities

- Equity dropped to Ps. 239 million or 26 % lower from a year ago of Ps. 324 million as a result of the net loss for the year of Ps. 98 million although the loss was reduced with a favorable currency translation adjustments of Ps. 12 million.

f. Key Performance Indicators

Performance Ratios	**2017**	**2016**	**2015**
Revenue Growth (%)	34%	(28 %)	34%
Gross Profit Margin (%)	6%)	(21 %)	22%
Basic Loss per share 1/	(Ps. 0.90)	(Ps. 0.42)	(Ps. 0.10)
Current Ratio 2/	0.2	0.9	0.2
Debt-to-Equity Ratio 3/	(6.2)	(31.7)	22.8
Return on Equity 4/	(1.9 %)	(4.9 %)	(34.8%)

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)

g. Other Matters

- There were no known trends, demands or uncertainties that will have a material impact on the Corporation's liquidity. The Corporation 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.

- 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 Corporation, including any default or acceleration of an obligation.

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

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

- Any material commitments for capital expenditure:

  The Corporation conducted a Follow-On Offering on November 23, 2007 that raised gross proceeds of Ps. 2,275 million to finance expansion and development plans of its two (2) subsidiaries, TSC and ZZS. These projects are on-going both in our China and Iligan plants.

- 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.

– Management Discussion and Analysis of Results of Operations and Financial Condition (First Quarter 2018)

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

1. On 13 April 2007 and 7 June 2007, the primary business purpose was changed from providing complete information solutions to operating and holding investments in steel companies;
2. On 13 April 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 30 April 2007, it acquired 90% equity interest in ZZ Stronghold (ZZS), a Corporation located in China;
5. On 29 June 2007, it acquired 96% equity interest in TSC, a Corporation located in the Philippines.

In addition to Steps 1 to 5, above, the SEC approved the change in the corporate name from SQL*Wizards, Inc. to TKC Steel Corporation. The Parent Corporation was originally registered as SQL*Wizards, Inc. with the primary purpose of providing complete information solutions.

As disclosed in Note 1 to the consolidated financial statements, SEI (the immediate parent Corporation) intended the Corporation 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 the Corporation was accounted for as a reverse acquisition as the arrangement was for TSC and ZZS to be "acquired" by a smaller public entity as a means of obtaining a stock exchange listing. Legally, the Corporation, as the issuing public entity is regarded as the parent Corporation. From an accounting perspective, TSC and ZZS are considered the “acquirers” since they have the power to govern the financial and operating policies of the Corporation.

The acquisition or transfers of Billions (together with ZZ Stronghold) and 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 Group registered a net loss of ₱113 million for the three months ended March 31, 2013 versus a net loss of ₱175 million for the same period last year. The Group posted a negative gross profit of ₱58 million as of the first quarter of 2013 compared to the negative gross profit of ₱92 million for the same period in 2012. The consolidated sales of the Group decrease by 68% to ₱198 million. ZZS registered a sharp 83% decline in sales for the first three months of 2013 which was partially offset by a lower production cost resulting to a positive gross margin of ₱3.2 million. TSC also registered a decline in sales by 70% compared to the same period last year due to lower sales volume by about 65%. Production cost improves by 5% per metric ton produced as compared to the same period last year however power and other raw materials consumption per metric ton increases by 30% and 16% respectively resulting in a gross loss of ₱51 million. This was however offset by a 33% decrease in operating costs as compared to the same period last year.

The Group’s financial condition, however, remains stable with 3.23% increase in the consolidated total assets from ₱6,486 million at year-end 2012 to ₱6,696 million as of March 31, 2013. The Corporation continues to invest in its property/plant/equipment which increased by 1.7% from ₱3,469 million at year-end 2012 to ₱3,711 million which is consistent with the capital expansion and development projects both in Iligan and China.

Stockholders’ equity decreased to ₱952 million as against the level of ₱1,139 million at year-end 2012. The decline in capital base was due to the net loss recognized for the period and the effect of currency translation adjustment.

Total liabilities amounted to ₱5,743 million, an increase of ₱396 million or 7.4% over the December 31, 2012 level of ₱5,347 million. The increase in total liabilities was primarily due to a 20.2% increase in Due to related parties and other payables.

<u>Causes of major movements in financial statements</u>

Balance Sheet Items
(June 2018 vs. December 2017)

<u>Cash and cash equivalents – 134% increased from ₱34 million to ₱81 million</u>

Cash and cash equivalents went up by ₱46 million in the normal course of day to day operation and partial liquidation of trade receivables by ₱79 million.

<u>Trade and other receivables –29% decreased from ₱266 million to ₱187 million</u>

Trade receivables significantly decreased by ₱79 million that was attributable to ZZS improved sales activity and liquidation of trade receivable and collection in the other receivables account.

<u>Inventories – 49% increased from ₱360 million to ₱540 million</u>

The level of inventories significantly went up by ₱179 million attributable to a combined increased in factory supplies and finished goods inventory by ₱163 million due to improved sales activity of ZZS.

<u>Creditable Withholding/Input VAT – 1.57% slightly decreased from ₱295 million to ₱290 million</u>

The amount represents input vat and tax withheld by our customers. Creditable withholding remains constant at ₱69 million while Input Vat slightly decreased by ₱4.0 million from last year due to the low level of local purchases as a result of slower activity in operation.

<u>Prepayments and other current assets – 160% increased from ₱26 million to ₱66 million</u>

The increase was due to prepaid expenses of ₱62 million but these were slightly offset by the liquidation of ₱25 million in other advances from suppliers.

<u>Property and equipment, net – 6.47% increased from ₱3,404 million to ₱3,625 million</u>

The increase of ₱220 million was primarily attributable to a favorable currency translation adjustment.

<u>Trade and other payables –10% increased from ₱955 million to ₱1,056 million</u>

The increase of ₱101 million in trade and other payables was attributable to increases in deposits received for ₱144 million and accounts payable-others for ₱207 million and other payables however there were significant liquidation in trade payable and accrued expenses for ₱205 million and ₱64 million respectively.

<u>Long-term debt – Nil</u>

Current – Nil

This account pertains to the net present value of the leasehold right on the land where the manufacturing plant of ZZ Stronghold is situated.

<u>Due to related parties – 0.17% increased from ₱3,560 to ₱3,566 million</u>

There was no significant activity in the due to related accounts. This account pertains to funding and advances from affiliates to finance the operating expenses of the group.

<u>Equity – 25% appreciate from (₱ 898) million to (₱672) million</u>

Capital position improves although still in a deficit status recovered to a deficit of ₱672 million for the first six months of 2018 compared to a deficit of ₱898 million as at year end of 2017 as a result of a favorable currency translation adjustment of ₱299 million.

Income Statement Items
(YTD June 2018 vs. YTD June 2017)

<u>Revenue/Sales – 718% increased from ₱47 million to ₱390 million</u>

Revenue for the first six months of 2018 was significantly higher by ₱343 million for the same period a year ago due to improved sales and production of ZZS by 489% and 192% respectively.

<u>Cost of sales – 734% increased from ₱38 million to ₱319 million</u>

Consolidated cost of sales significantly increased by ₱280 million that was also attributable and comparable to ZZS significant increase in production and sales revenues.

Other operating expense – 112% increased from ₱49 million to ₱104 million

The other operating expenses increased by ₱55 million as a result of improved sales and operating activities in ZZS.

Finance cost –6% decreased from ₱40 million to ₱38 million

The net decrease in finance charges by ₱2 million was due to the impact of the market to market conditions of certain accounts.

Income tax expense – 1129% increased from ₱0.005 million to ₱ nil million

The level of income tax was comparable in terms of nominal value both for 2017 and this year.

Key Performance Indicators:

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

	YTD Jun. 30, 2018	YTD Jun. 30, 2017
Revenue Growth (%)	718 %	-72 %
Gross Profit Margin (%)	18 %	20.00 %
Basic Earnings per share 1/	-0.07	-0.08
	As of Jun. 30, 2018	As of December 31, 2017
Current Ratio 2/	0.22	0.18
Debt-to-Equity Ratio 3/	-8.5	-6.22
Return on Equity (%) 4/	9.07%	-1.61%

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 IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

Please refer to the portion of this Information Statement on "Directors and Executive Officers".

PART V - CORPORATE GOVERNANCE

In compliance with the initiative of the Securities and Exchange Commission ("SEC") under Memorandum Circular No. 19, Series of 2016, the Company's Revised Manual on Corporate Governance (the "Manual") was approved by the Board of Directors on 31 May 2017. The Manual is a supplement to the Company's Amended By-Laws.

The Company remains focused on insuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders. Even prior to the adoption of the Manual, the Board of Directors organized themselves into Board level committees, such as: Corporate Governance Committee, for selection and evaluation of qualifications of directors and officers, a Compensation and Remuneration Committee, to look into an appropriate remuneration system; and an Audit and Risk Management Committee to review financial and accounting matters as well as oversee the Company's management of risk.

The Company evaluates the level of compliance of the Board of Directors and top-level management with its Revised Manual on Corporate Governance, as well as the leading corporate governance practices of the industry, by using the evaluation standards set by the Philippine Stock Exchange and Institute of Corporate Directors. Through its participation in the annual Corporate Governance Disclosure Survey of the PSE and the ICD's yearly corporate governance initiatives, the Company is able to assess its corporate governance performance as against best practices benchmarks.

Compliance with Rules on Corporate Governance

The Company continues to monitor compliance with the Rules on Corporate Governance issued by the SEC and remains committed in ensuring the adoption of other systems and practices of good corporate governance to enhance its value for its stockholders. The Integrated Annual Corporate Governance of the Corporation was submitted to the SEC and PSE on 30 May 2018.

PART VI - EXHIBITS AND SCHEDULES

Exhibits

Please refer to the attached audited consolidated financial statements and required supplementary schedules of the Company as of and for the year ended 31 December 2017, which have been prepared in accordance with Philippine Financial Reporting Standards, as audited by Reyes, Tacandong & Co. Likewise attached is the Company's interim unaudited financial statements as of 31 March 2018.

UNDERTAKING TO PROVIDE COPIES OF REPORTS

UPON WRITTEN REQUEST OF ANY SHAREHOLDER OF RECORD ENTITLED TO NOTICE OF AND VOTE AT THE MEETING, THE COMPANY SHALL FURNISH SUCH SHAREHOLDER WITH A COPY OF THE COMPANY'S INFORMATION STATEMENT (SEC FORM 20-IS), ANNUAL REPORT FOR 2017 (SEC FORM 17-A), AND QUARTERLY REPORT FOR SECOND QUARTER 2018 (SEC FORM 17-Q) FREE OF CHARGE. ANY SUCH WRITTEN REQUEST SHALL BE ADDRESSED TO:

A. BAYANI K. TAN
THE CORPORATE SECRETARY
TKC METALS CORPORATION
2704 EAST TOWER
PHILIPPINE STOCK EXCHANGE CENTRE
EXCHANGE ROAD, ORTIGAS CENTER
PASIG CITY, METRO MANILA, PHILIPPINES

F:\data\CLIENTS\1000\2018 ASM\TKC Definitive 20IS_FINAL 10042018.docx
ABKT\JCN\AMKL\JFG 1000-228

COVER SHEET

A1996-10620
SEC Registration Number

TKC STEEL CORPORATION AND SUBSIDIARIES

(Company's Full Name)

Unit BI-A/C, 2nd Flr. BLDG. B KARRIVIN PLAZA, 2316 CHINO ROCES AVE. EXT. MAKATI CITY

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

Efren A. Realeza Jr.
(Contact Person)

864-0734
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

17-A
(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

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17 OF
THE SECURITIES REGULATION CODE AND
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**

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 : **1231**

   2nd Floor W Tower Condominium 39th St., North Bonifacio Triangle,
   Bonifacio Global City, Taguig City, Philippines

8. Issuer's telephone number, including area code

   (02) 864-0734

9. Former name, former address and former fiscal year, if changed since last report

   TKC Steel Corporation
   Unit B1-A/C, 2nd Flr. Bldg. B, Karrivin Plaza, 2316 Chino Roces Ave. Ext., Makati City

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 [ ]

State the aggregate market value of the voting stocks held by non-affiliates of the registrant.

Ps. 283,919,370.00 (as of March 31, 2018)

TABLE OF CONTENTS

PART II - OPERATIONAL AND FINANCIAL INFORMATION

PART I - BUSINESS AND GENERAL NFORMATION

ITEM 1 - BUSINESS

Business Development

TKC Steel Corporation (formerly SQL*Wizard, Inc) was organized and registered with the Securities and Exchange Commission (SEC) on November 28, 1996. SQL was originally incorporated to engage in computer training, consulting services and selling of software licenses and other related information solution services. It was listed then in the Small and Medium Enterprise Board of the Philippine Stock Exchange (PSE) on July 19, 2001.

On January 19, 2007, Star Equities, Inc. (SEI) entered into a Memorandum of Agreement (MOA) with the then major shareholders of SQL*Wizard, Inc, intending the latter to be its backdoor listing vehicle for its investment in the steel business. In line with its plan to shift its business direction to new areas, both foreign and domestic, SQL and its shareholders decided to take advantage of the new investment opportunities that would be brought about by the entry of SEI as an investor in SQL. On this basis, SEI agreed to become a shareholder of SQL by initially subscribing to 240,000,000 new common shares following the increase of the latter's capital stock. Thereafter, with the change of its primary business, SQL was renamed TKC Steel Corporation, as approved by the SEC on February 28, 2007. Likewise, on July 25, 2007, the PSE approved the reclassification of TKC's listing status from the SME Board to the Second Board subject to the conditions specified in the Notice of Approval issued by the PSE. The conditions stated in said notice specifically the minimum number of stockholders and minimum offering to the public given its market capitalization, were complied with after the conduct of a Follow-On Offering of shares by the Corporation which culminated with the listing of the offer shares on November 23, 2007.

Business Consolidation

In meetings held on February 9, 2007, the Board of the Corporation and its shareholders approved the following resolutions:

(a) The amendment of the articles of incorporation, whereby:

- i. The primary purpose will be changed to that of a holding company;
- ii. The corporate name will be changed from "SQL *Wizard, Inc." to "TKC Steel Corporation";
- iii. The principal office may be changed upon the Board's determination;
- iv. A provision on the denial of pre-emptive rights will be inserted in the Seventh Article; and
- v. The number of directors will be increased from 7 to 9.

(b) The increase in the Corporation's authorized capital stock from P40.0 million, divided into 40 million shares with par value of P1.00 a share to P1.0 billion, divided into 1.0 billion common shares with the same par value.

(c) The subscription by SEI to 240 million common shares at subscription price of P1.00 per share or total subscription price of P240.0 million.

(d) The assignment and/or sale of all and/or substantially all the Corporation's existing IT business assets to a new corporation.

These amendments were approved by the SEC on February 28, 2007, except for the increase in authorized capital stock, which was approved on April 13, 2007.

On June 22, 2007, the SEC approved the amendment to the primary purpose of the Corporation, as follows:

"To invest in, operate, purchase, 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 of metals, steel or other alloys of metallic, non-metallic 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 or otherwise; Provided, that the Corporation shall not engage in the business of an Open End Investment Company as defined in the Investment Company Act (R.A. 2629), without first complying with the provisions of the Revised Securities Act; Provided, Further, that it shall not act as a Broker or Dealer of Securities.

Conformably with the change in business operations, the following transactions were consummated:

(a) Subscription of SEI into TKC

As stated above, SEI subscribed to 240.0 million common shares at P1.00 per share, out of the increase in authorized capital stock by the Corporation. 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 shares, increasing its equity interest to 680.0 million shares out of the total outstanding capital stock of 705.0 million shares representing 96.45% ownership interest in TKC.

(b) Transfer of SEI Subsidiaries to TKC

As disclosed in Note 1 to the consolidated financial statements, SEI intended TKC to be its vehicle for listing of its investments in the steel business. Consistent with this direction, SEI consolidated its interests in Treasure Steelworks (TSC) and Billions Steel International Limited (Billions) (together with the latter's 90% interest in Zhangzhou Stronghold Steel Works Co. Ltd. (ZZS)) as follows:

i) Acquisition of Billions

On April 30, 2007, an agreement was executed whereby major shareholder, SEI, assigned all of its interest in Billions to TKC for P 594,056,700. Billions has a 90% direct interest in ZZS. Billions is a limited liability corporation incorporated under the laws of the Republic of Mauritius. ZZS was incorporated under the laws of the People's Republic of China on July 13, 2005. On January 9, 2009, Billions Steel International Limited, a corporation incorporated in Mauritius sold its entire interest in ZZ Stronghold to Billions Steel International Limited, a corporation registered in Hong Kong. It immediately began construction of its facilities thereafter. Its first batch of manufactured steel pipes was completed and sold in June 2007. Commercial operations of ZZS began officially after acceptance by its customer of the first batch of steel pipes manufactured and delivered.

ii) Acquisition of TSC

On June 29, 2007, SYL Holdings, Inc. and Billions (in-trust for the controlling shareholder group of SEI) each owning 48% in TSC, collectively transferred their shareholdings consisting of 479,998 shares and 479,997 shares, respectively, with the total par value of P95,999,500.00 to TKC on account. After execution of the Deed of Sale, TKC has 96% direct interest in Treasure.

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

Name of Subsidiary	Country of Incorporation	Nature of Business	Percentage of Ownership	
			Direct	Indirect
Treasure Steelworks Corporation (TSC)	Philippines	Manufacture of steel products	98%	–
Billions Steel International Limited (Billions)	Hong Kong	Investment holdings	100%	–
Zhangzhou Stronghold Steel Works Co. Ltd. (ZZS)	People's Republic of China or PRC	Manufacture of steel pipes	–	91%*
Campanilla Mineral Resources, Inc. (Campanilla)**	Philippines	Mineral production	70%	–

** Through Billions*
*** Has not commenced commercial operations*

Business of Issuer

Products

TKC is engaged in the business of manufacturing and distributing steel products primarily through its two (2) subsidiaries, as follows:

(a) TSC

TSC was incorporated with the primary purpose of operating a smelting, melting and rolling plant, among others. It manufactures steel billets which in turn become the raw materials of downstream steel products such as bars, wire rods and sections.

(b) ZZS

ZZS manufactures the following steel pipes: (i) ERW and spiral welded pipes for general construction, water transmission and structural uses; and (ii) prospectively, seamless pipes for the oil and gas development industry. ZZS offers a wide range of specifications of steel pipes ranging from an outer diameter of 219 mm to 1920 mm, length up to 6 meters long, and thickness from 4mm to 20mm.

Sales generated and the resulting net loss of TKC, TSC and ZZS (China) are presented below, broken down according to major markets (in millions):

(a) Sales

Country	Amount	%
Philippines	Ps. 0.351	0
China	363	100

(b) Net Loss

Country	Amount	%
Philippines	Ps.783	90
China	84	10

Distribution

Steel billets produced by TSC are primarily sold to local customers. On a limited scale, TSC taps the export market.

Marketing of steel pipes produced by ZZS is outsourced with a marketing company based in Fujian Province. Aside from its sales offices in Xiamen, representative offices have likewise been set up in the cities of Fuzhou and Quanzhou. We have set up an in-house sales group to supplement effort of this marketing company, and to focus on the export market under the direct supervision of the Assistant General Manager. To provide sufficient reach in the international market, ZZS engages the services of affiliate offices and trading houses in various countries like the Philippines, Indonesia, Singapore, the Middle East and North America.

Competition

TSC

TSC has the largest installed capacity for steel billet manufacturing in the Philippines. Other manufacturers produce billets for their own production of downstream steel products.

Top billet producers in the Philippines are

	Annual Installed Capacity (000 MT)
(a) TSC	300
(b) Bacnotan Steel Corp	300
(c) Cathay Pacific Steel Corp	290
(d) Stronghold Steel Corp	150
(e) SKK	120

ZZS

As the first steel producer in the Fujian Province and one of the few major steel pipe producers in Southern China, ZZS has the geographical competitive advantage against producers from Northern China. Our initial marketing thrust in the Chinese domestic market is focused on Fujian Province and the neighboring province of Zhejiang. The target market for ZZS' products can be segmented in terms of product application. Construction and water pipes are primarily intended to supply the needs of the Southern China region, with exports into Southeast Asian countries, such as the Philippines and Singapore. We are even tapping the European market. On the other hand, seamless pipes are geared toward serving the requirements of oil and gas exploration and development activities in different parts of the world.

Raw Materials

Raw materials used to produce billets are scrap sourced from neighboring provinces in Visayas and Mindanao. TSC buys the scrap from major scrap consolidators and their own collection networks. Scrap is old, wasted metal such as parts of vehicles, building supplies, and surplus materials.

Spiral welded pipes are produced from hot rolled steel strip while electric resistance welded pipes are produced from hot rolled steel coils/strips. On the other hand, seamless pipes are produced from billets through a hot draw and extrusion process.

Customer Base

The Corporation and its subsidiaries (TSC and ZZS) are not dependent upon a single or few customers.

Transactions with Related Parties

In the regular course of its business, the Corporation engages in transactions with related parties (stockholders and affiliates). These transactions may involve inter-company trade dealings, and the granting of advances and paying of expenses.

Patents and other Intellectual Property Rights

For marketing and distribution of its corrugated roofing sheets, the Corporation acquired "Philgalume" and "Philgabond" as trademarks from the Bureau of Patents. The renewal of registration has a term of five (5) years until January 26, 2019. Whereas the Corporation's subsidiaries have no patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements covering any of its products and the marketing or distribution thereof.

Government Regulations

TKC and its subsidiaries are not currently required to secure government approval for its products and services. Government approvals and permits, both in China and in the Philippines, are currently, and may in the future be, required in connection with the companies' operations.

Costs and effects of Compliance with Environmental Laws

TSC and ZZS are subject to environmental regulations in their respective jurisdictions. These regulations mandate, among other things, the maintenance of air, noise and water quality standards. They also set forth limitations on the generation, transportation, storage and disposal of solid and liquid hazardous waste.

As part of its efforts to ensure compliance with environmental regulations, the Corporation rehabilitated and upgraded the dust collection system to meet environmental standards, make it more effective and cope with the anticipated increase in production volume resulting from new facilities.

Employees

TKC currently has 10 employees, namely: Vice-Chairman, President and Chief Operating Officer, Chief Financial Officer, Head of Corporate Services/Compliance Officer, Chief Liaison Officer, Chief Logistic Officer, Head of Accounting Services and three (3) Administrative Staff.

Risk Management

a. Financial Risks

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

The Corporation's Board of Directors (BOD) is directly responsible for risk management. Management carries out risk management policies approved by the BOD. The Management 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 foreign exchange risk, credit risk and liquidity risk.

Foreign Currency Risk

Foreign currency risk arises as a result of change in exchange rates between Philippine peso and foreign currencies. Any change will affect our foreign currency denominated accounts and transactions.

The Corporation's foreign currency exposure primarily covers operations in PRC. Any fluctuation in the exchange rate between the Philippine Peso and the RMB, PRC's currency, will impact the amount of our investment and related accounts in our China subsidiary.

The Corporation regularly monitors foreign exchange rates and any trends and changes thereupon. Measures will be adopted to protect our investment in the event there would be significant fluctuations in the exchange rate.

Liquidity Risk

Liquidity risk arises from the possibility that the Corporation may encounter difficulties in raising funds to meet or settle its obligations at a reasonable price.

The Corporation monitors potential sources of the risk to a shortage of funds through monitoring of financial investments and financial assets, and projected cash flows from operations. An essential part of this strategy is the proper matching of trade receivables and trade and other payables. The Corporation's objectives to manage its liquidity 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 Corporation also maintains a financial strategy that the scheduled principal and interest payments are well within the Corporation's ability to generate cash from its business operations.

Capital Management Risk

The Corporation is committed to maintaining adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities.

The Corporation regularly keeps track of its capital position and assesses business conditions to ensure early detection and determination of risks, and its consequent adverse impact. The Corporation adopts measures, as may be deemed necessary and appropriate, to mitigate risks.

We aim to achieve acceptable level of debt-to-equity ratio. This ratio is calculated as total liabilities divided by total equity.

Our long-term strategy is to sustain a healthy debt-to-equity ratio. As at December 31, 2017, this ratio is:

	Amount
Total liabilities	Ps. 5,586,730,924
Total equity	-898,723,113
Debt-to-equity ratio	-6.21:1

Our main sources of capital include but not limited to:

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

The Corporation seeks to generate reasonable rate of return on its capital. Corollary to this, our dividend policy will be dictated by the level of retained earnings and ongoing business earnings.

We will access the capital market when we consider it necessary. As we grow our business, we will retain sufficient flexibility to raise capital to support new business opportunities. We are prudent in our capital management.

b. Operational Risks

Fluctuation of Steel Demand and Prices

The industries in which steel are used, such as the construction industry, and the demand for steel products, are cyclical in nature. As a result, the prices at which our products are sold, both in the local and international markets, move in accordance with the local and global steel dynamics. Furthermore, any volatility in the steel prices may affect the normal timing of orders by customers. The volatility in steel prices could cause the Corporation's results of operation to vary and may have an adverse effect on the Corporation's business, financial position, results of operations and prospects.

Similarly, the volatility in the cost of raw materials, scrap for TSC and hot-rolled coils for ZZS, may also cause fluctuations in the results of operations.

We closely monitor demand and price trends, both local and international markets, align our production and sales volumes to desired inventory levels, and put in place measures to ensure that we can access various sources of raw materials.

Single Production Site

Both TSC and ZZS conduct their respective manufacturing activities in single production sites, both in the Philippines and China, respectively. Closure of the production sites, interruption or prolonged suspension of any substantial part of the operations or any damage to, or destruction of, the facilities arising from unexpected events or catastrophes, or other similar events would prevent the operating subsidiaries from generating revenue. All existing facilities have been duly insured. Any new installations will likewise be covered by appropriate insurance coverage.

Scarcity of Raw Materials

Scrap metal is an essential raw material for the production of TSC's end-products. The supply of this raw material is currently sourced locally. Any shortage in supply of scrap metal may adversely affect TSC's operations. TSC is continually expanding its raw material sources to ensure a steady supply. At the same time, we keep good business relationships with scrap consolidators.

There is no foreseeable risk of raw materials scarcity for ZZS which utilizes hot-rolled coils from slabs that are widely available in China.

Insurance Risks

Our businesses are subject to a number of risks and hazards generally, including, but not limited to, adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slop failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and avalanches. Such occurrences may result in damage to production, facilities, personal injury or death, environmental damage to properties or properties of third parties, monetary losses, and possible legal liability.

Insurance coverage is maintained to protect against certain risks in such amounts as are considered reasonable and appropriate.

ITEM 2 - DESCRIPTION OF PROPERTY

TKC does not own any real or personal property other than its leasehold improvements, office fixtures, furniture and equipment located in its principal office. TSC and ZZS lease the land where their plant facilities are currently situated but they own the machineries and equipment.

Leases

TKC leases its main office located at 2nd Floor W Tower Condominium, 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City. This covers a period of five (5) years which will expire on September 2019.

TSC, as an assignee of Mr. Ben Tiu, leases its billet making plant, including all the equipment and machineries, in Iligan City from Global Ispat Holdings Ltd and Global Steelworks International, Inc.

The memorandum of agreement (MOA) is for 25 years starting 2006. At the expiration or earlier termination of the term of the MOA, TSC has the option to purchase the billet plant at an amount equivalent to its market value at the time the option is exercised. The market value shall be determined by three (3) recognized and competent appraisers to be nominated by the parties. However, this does not preclude the parties from arriving at an agreement and determining between themselves said purchase price.

In the performance of its obligations under the MOA, TSC paid the outstanding liens incurred by the former owners and inherited by the lessor pertaining to the billet making plant amounting to P46 million in 2006.

ZZS entered into a contractual agreement with China Merchants ZhangZhou Development Zone Co., Ltd (China Merchants), wherein the lessor transferred the right to use the land located in 1 M2-05 Zone I, China Merchants Development Zone to ZZS for a period of 50 years. This is where the existing steel plant facilities of ZZS are located.

Under the agreement between ZZS and China Merchants, the land has a total area of about 53.3 hectares divided into Phases I, II and III.

During the first semester of 2010, China Merchants, as mandated by the Fujian Provincial Government made revisions in the original contract as follows: 1) the term of the lease for Phase 1 was reduced to forty two (42) years from fifty (50) years. ZZS received a refund of ₱9.3 million (RMB 1.4 million) during the first quarter of 2010 to reflect the shorter lease term; 2) a portion of the land for Phase 2 (55,089.567 square meters out of the original 179,374.822 square meters.) will no longer be delivered; and 3) due to China Merchants' inability to reclaim the land, Phase 3 land will no longer be delivered to ZZS. As a consequence of the non-delivery of a portion of Phase 2 land and the entire area of Phase 3, the cost of leasehold rights was reduced by ₱114.0 million and the long term debt was reduced to nil in 2010. ZZS has fully paid for both Phase 1 and 2 of the land as of the end of 2011.

ITEM 3- LEGAL PROCEEDINGS

The Corporation is not a party to any pending material litigation, arbitration or other legal proceedings, and no litigation or claim of material importance is known by Management to have been filed against the Company.

ITEM 4- SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted for the approval of the stockholders during the year ended December 31, 2017.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5 - Market for Issuer's Common Equity and Related Stockholders Matters

Market Information

The common shares of TKC have been listed on the Philippine Stock Exchange since July 19, 2001. Following the amendment of the articles of incorporation whereby the (a) primary purpose was changed to that of a holding company, (b) corporate name was changed from SQL*Wizard to TKC Steel Corporation, (c) authorized capital stock was increased from P40 million (par value of P1.00 per share) to P 1 billion with the same par value, and the assignment and/or sale of all and/or substantially all of the Company's existing IT business assets in favor of a new corporation, TKC undertook a Follow On Offering (FOO) of 235,000,000 common shares on November 23, 2007 based on the offer price of Ps. 9.68 per share. After the FOO was completed, the Company's total issued and outstanding common shares stood at 940,000,000 shares. The offer shares represented 25% of TKC's issued and outstanding common shares.

Presented in the table below are the high and low prices of TKC shares.

	High	Low
1st Quarter, 2018	1.05	1.04
Year Ended December 31, 2017		
1st Quarter	1.38	1.35
2nd Quarter	1.37	1.35
3rd Quarter	1.28	1.22
4th Quarter	1.19	1.18
Year Ended December 31, 2016		
1st Quarter	1.39	1.24
2nd Quarter	1.96	1.81
3rd Quarter	1.74	1.71
4th Quarter	1.42	1.44

Holders of Common Equity

As of December 31, 2017, the Corporation has a total of 940,000,000 issued and outstanding shares, owned by 41 common shareholders.

The top twenty (20) shareholders, and their corresponding shares and percentage ownership of TKC are as follows:

Name of Stockholders	No. of Shares	% to Total Outstanding
1. Star Equities, Inc.	667,000,598	70.9575%
2. PCD Nominee Corp (Filipino)	266,850,021	28.3801
3. Chuahiong, Gertim G.	2,912,000	0.3098
4. BA Investments & Holdings, Inc.	1,279,730	0.1361
5. Sio, Elsie Chua	900,000	0.0957
6. Nápoles, Janet L.	300,000	0.0319
7. Uy, Francisco a.	200,000	0.0213
8. BA Securities	120,270	0.0128
9. Hernandez, Elmer C.	100,000	0.0106
10. Ko, Michael Anthony Lee	100,000	0.0106
11. Martin, Francisca A.	90,000	0.0096
12. Enrile, William T.	50,000	0.0053
13. De Villa, Hanrietta	20,000	0.0021
14. Chua Co Kiong, William	15,000	0.0016
15. Resurrecion, Antonio	10,000	0.0011
16. Insua, Jose Cesar	10,000	0.0011
17. Estrada, Claudia Patricia	6,250	0.0007
18. Evangelista, Maria Imelda	6,250	0.0007
19. Garcia, Luningning	6,250	0.0007
20. Saplala, Victor	6,250	0.0007

Based on the records of our Stock Transfer Agent, Professional Stock Transfer, Inc., TKC Steel Corporation has 29.0425% public ownership level as of March 31, 2018.

Dividends

The Corporation did not declare dividends in 2017 and 2016.

There are no known restrictions or impediments to the corporation's ability to pay dividends on common equity, whether current or future.

Recent Issuance of Securities Constituting an Exempt Transaction

For the year ended December 31, 2017, we have not issued any securities constituting an exempt transaction.

ITEM 6 - Management Discussion and Analysis of Financial Condition and Results of Operations (Last Three Years: 2017, 2016 and 2015)

a. Corporate Restructuring

The Corporation 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 P40 million to P1 billion;
3. Capital Stock was increased from P25 million to P705 million;
4. On April 30, 2007, it acquired 90% equity interest in ZZ Stronghold, a company located in China;
5. On June 29, 2007, it acquired 96% equity interest in Treasure, a corporation located in the Philippines.

In addition to Steps 1 to 5, above, the SEC approved the change in the corporate name from SQL*Wizards, Inc. to TKC Steel Corporation. The Corporation was originally registered as SQL*Wizards, Inc with the primary purpose of providing complete information solutions.

As disclosed in Note 1 to the consolidated financial statements, SEI (the immediate parent corporation) has intended TKC to be a backdoor listing vehicle for its investment 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 the parent corporation to be "acquired" by a smaller public entity as a means of obtaining a stock exchange listing. Legally, TKC, as the issuing public is regarded as the parent corporation. From an accounting perspective, SEI is considered the "acquirer" since they have the power to govern the financial and operating policies of TKC and its subsidiaries, Treasure Steelworks and ZZ Stronghold (ZZS).

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.

b. Financial Highlights

- Results of Operations

Accounts In Million Pesos)	2017	2016	2015	Increase (Decrease) 2017/2016 (%)	Increase (Decrease) 2016/2015 (%)
Revenue	364	272	381	34 %	(29%)
Cost of Sales	341	328	299	4 %	10%
Gross Income (Loss)	22	(56)	82	(139 %)	(168%)
Operating Expenses	889	362	180	146%	101%
Net Income	(860)	(419)	(98)	107 %	328 %

Operating performance posted again a net loss for the current year due to the adverse market conditions and the Corporation's focus on its plant modernization and expansion program. The Corporation posted net losses of Ps. 860 million, Ps. 419 million and Ps. 98 million in 2017, 2016 and 2015, respectively, primarily due to lower production and sales volume coupled with lower demand and price in the market.

Despite the very competitive market conditions the total sales also went up by 34% to Ps. 364 million in 2017 compared to Ps. 272 million and Ps.381 million in 2016 and 2015 respectively. The increase in revenue was primarily due to improved production activity and operation of ZZS with some closed contracts in the last quarter both domestic and abroad. ZZS average selling prices of steel is lower due to China's existing steel supply has exceeded the demand resulting to decline in steel prices.

Due to slower production and minimal sales and marketing activity of the Group, total operating expenses went up by 145% from Ps. 362 million in 2016 to Ps. 889 million in 2017. Significant increase's were noted in the following accounts as follows: provision for impairment loss on property, plant and equipment by 100%; utilities expense by 128%; taxes and licenses by 690%; professional fees by 780% and interest expense by 12%.

- **Financial Condition**

Accounts (In Million Pesos)	2017	2016	2015	Increase(Decrease) 2017/2016 (%)	Increase(Decrease) 2016/2015 (%)
Current Assets	1,021	987	1,309	3 %	(25%)
Total Assets	4,688	5,244	5,691	(11 %)	-8 %
Current Liabilities	5,563	5,383	5,421	3 %	-1 %
Total Liabilities	5,593	5,414	5,452	3 %	-1 %
Equity	(898)	(170)	239	428 %	(171 %)

Our total asset base was reduced by 11% to Ps. 4,688 million from the previous year's level of Ps. 5,244 million. The significant decrease was primarily to the 15% decrease in property, plant and equipment from Ps. 4,012 million to Ps. 3,405 million as a result of the current provision for impairment loss for Ps. 683 million; inventories by 5% to Ps. 360 million from Ps.380 million; other current assets and prepayments by 15% from Ps. 30 million to Ps. 25 million.

Current ratio for the years 2017 and 2016 remains stable at 0.2:1 and 0.2:1 respectively while debt-to-equity ratio is -6.18:1 in 2017 from -31.84:1 in 2016.

c. 2017 versus 2016

- Results of Operations

The Corporation registered a net loss of Ps. 860 million in 2017 compared to a net loss of Ps. 419 million a year ago. The significant increases in net loss were brought about by the provision of impairment loss in the property, plant and equipment of TSC. Although TSC is non-operating for the last five years, the prospect of having for the right investors is still active as there were several groups who have visited the plant. ZZS recovered in the last quarter and resulted in gross profit however the overall market conditions is still unfavourable coupled with a lower steel prices in China due to higher steel supply but lower demand. TSC as previously reported has nil operation while

TKC has minimal production and sales activity resulting to net loss of Ps.742 million and Ps. 281 million respectively.

Revenue increased by 34% to Ps. 364 million compared to a year ago of Ps. 272 million. Of the total sales, ZZS generated Ps. 363 million while TKC recorded only Ps. 0.35 million. TSC has stop operation since 2013 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross profit of Ps. 22 million in 2017 compared to a gross loss of Ps. 56 million in 2016. Although ZZS performance slightly recovered in the last quarter, the general production and marketing activity still depended on a lower market price and demand due to over-supply of steel products in the China market and coupled with the nil operation of TSC, our group losses increased significantly by 105% from Ps. 419 million to Ps. 867 million.

Operating expenses went up by Ps.527 million or 146% higher from the 2016 level of Ps. 362 million. The major factor of increased operating expenses were in the following accounts: a) current provision for impairment loss on property plant and equipment; utilities expense by 128%; taxes and licenses by 690%; professional fees by 780% and interest expense by 12%.

- Financial Condition

Total assets went down by 11% to Ps. 4,688 million in 2017 from last year's figure of Ps. 5,244 million. The significant decrease was primarily due to the current provision for impairment loss on property, plant and equipment for Ps. 683 million; inventories by 5% to Ps. 360 million from Ps.380 million; other current assets and prepayments by 15% from Ps. 30 million to Ps. 25 million. The current financial conditions of the Group were attributable significantly due to ZZS minimal operating activity and TSC's nil production, sales and marketing activity primarily due to prolonged power crisis and not so competitive market price and conditions. Current assets accounted for 22% of total assets in 2017 compared to 19% in 2016 resulting in almost the same current ratio of 0.2:1 in 2017.

In 2017, total liabilities went up by 3% or Ps. 172 million from Ps. 5,414 million to Ps. 5,586 million. There were significant increases in trade payable by 6% or Ps. 49 million from Ps. 7680 million up to Ps. 818 million; accrued expenses increased by 144% or Ps. 67 million from Ps. 47 million to Ps. 114 million; loans payable increased by 4% or Ps. 38 million from Ps. 1,010 million to Ps. 1,048 million; and due to related parties 1% or Ps. 37 million from Ps. 3,523 million to Ps. 3,560 million.

Our capital base was adversely affected by the continued non-operation and slower business activity in our two steel subsidiaries coupled with lower steel price and demand and the current provision for impairment loss in the property, plant and equipment resulting to deficit equity of Ps. 898 million compared to Ps. 170 million a year ago. The decline was primarily attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 860 million although this was reduced with a favorable currency translation adjustment of Ps. 130 million. As a result of the decline in capital base, debt to equity ratio went down to -6.18:1 from a year ago of -31.84.

- Causes for any Material Changes in the Balance Sheet Accounts:

• Cash and cash equivalents increased slightly by 11% to Ps. 34 million from Ps. 31 million a year ago brought about by the continuing slower market activity.

• Trade and other receivable went up by Ps. 55 million or 26% from Ps. 210 to Ps. 265 million due to last quarter closed sales contract by ZZS both domestic and abroad.

• Inventories slightly went down by Ps. 20 million or 5% from Ps. 380 million to Ps. 361 million due to improved production and sales activity in ZZS.

• Creditable withholding and value-added taxes remain constant at Ps. 295 million respectively for the years 2017 and 2016 primarily due to slower business activities.

• Other current assets went down by Ps. 4 million or 15% from Ps. 30 million to Ps. 25 million due to liquidation of advances from suppliers and prepaid others.

• Property, plant and equipment went down by Ps. 607 million from Ps. 4, 012 million a year ago to Ps. 3,405 or 15% as a result of provision of impairment loss in TSC

• Other non-current assets increased by 69% or Ps. 13 million from a year ago of Ps. 18 million to Ps. 31 million primarily due to advances and deposits to contractors and suppliers.

• Trade and other payables went up by 12% or Ps. 105 million from Ps. 850 million to Ps. 955 million notably in trade payables by 6%; accrued expenses by 144% however there were also significant decreases in deposits received by 100% and other payables account that offset the increases.

- Loans payable was increased by Ps. 38 million or 4% from Ps. 1,010 million to Ps. 1,048 million as a result of short-term renewal of credit facilities of ZZS in relation to their requirement in production and selling activities.

- Equity dropped to negative Ps. 898 million or 428% lower from a year ago of Ps. 170 million as a result of the net loss for the year of Ps.860 million. The group loss was primarily affected by the provision of impairment loss in the group property, plant and equipment for Ps. 683 million although the deficit was reduced with a favorable currency translation adjustments of Ps. 130 million.

d. 2016 versus 2015

- Results of Operations

The Corporation registered a net loss of Ps. 419 million in 2016 compared to a net loss of Ps. 98 million a year ago. This significant increase in net loss were brought about by ZZS slowdown in operations, slower sales activity and decline in steel prices in China due to higher steel supply but lower demand. TSC as previously reported has nil operation while TKC has minimal production and sales activity resulting to net loss of Ps.178 million and Ps. 22 million respectively.

Revenue decreased by 29% to Ps. 272 million compared to a year ago of Ps. 381 million. Of the total sales, ZZS generated Ps. 271.9 million while TKC recorded only Ps. 0.43 million. TSC has stop operation since 2013 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross loss of Ps. 56 million in 2016 compared to a gross profit of Ps. 82 million in 2015. As a result of ZZS slowdown in production and sales volume coupled with a lower market price and demand due to over-supply of steel products in China and nil operation of TSC, our group losses increased significantly by 328% from Ps. 98 million to Ps. 419 million.

Operating expenses went up by Ps. 182 million or 101% higher from the 2015 level of Ps. 180 million. The major driver of increased operating expenses were in the following accounts: a) salaries and wages, up by 7% from Ps. 48 million to Ps. 51 million; b) taxes and licenses, up by 12% from Ps. 12 million to Ps. 14 million; c) professional fees, up by 96% from Ps. 1 million to Ps..2 million; d) inventory obsolescence , up by 1281% from Ps. 7.7 million to Ps. 105 million; e) receivable impairment, up by 1876% from Ps. 1.5 million to Ps. 29 million; and f) other expenses, up by 146% from Ps.7.7 million to Ps. 19 million.

- Financial Condition

Total assets went down by 8% to Ps. 5,244 million in 2016 from last year's figure of Ps. 5,691 million. The decrease was due to reduced cash and cash equivalents by 58% or Ps. 31 million from Ps. 73 million; inventories decreased by 20% from Ps. 478 million to Ps. 380 million; prepayments went down by 68% from Ps.95 million to Ps. 30 million; and property, plant and equipment by about 2% or Ps.4,078 million to Ps. 4,013 million. The current financial conditions of the Group were attributable significantly due to TSC's nil production, sales and marketing activity primarily due to prolonged power crisis and not so competitive market price and conditions. Current assets accounted for 19 % of total assets in 2016 compared to 23% in 2015 resulting in a slightly reduced current ratio of 0.2:1 in 2016.

In 2016, total liabilities went down by 1% or Ps. 38 million from Ps. 5,452 million to Ps. 5,414 million. There was a significant liquidation of loans payables by 5% or Ps. 51 million from Ps. 1,061 million down to Ps. 1,010 million; deposits received by 22% or Ps. 5 million from Ps. 24 million to Ps. 18 million; and other payables down by 90% or Ps. 34 million from Ps. 38 million to Ps. 4 million.

Our capital base was affected by the continued non-operation and slower business activity in our two steel subsidiaries coupled with lower steel price and demand resulting in a negative equity of Ps. 170 million compared to Ps. 239 million a year ago. The decline was primarily attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 419 million although this was reduced with a favorable currency translation adjustment of Ps. 9 million. As a result of the decline in capital base, debt to equity ratio went down to -31.79:1 from a year ago of 22.83.

- Causes for any Material Changes in the Balance Sheet Accounts:

- Cash and cash equivalents fell by 58% to Ps. 31 million from Ps. 74 million a year ago brought about by the continuing slower market activity and liquidation of local payables.

- Inventories significantly went down by Ps. 98million or 20% due to nil production and sales in TSC.

- Creditable withholding and value-added taxes remain constant at Ps. 295 million respectively for the years 2016 and 2015 primarily due to slower business activities.

- Other current assets went down by Ps. 65 million or 68% from Ps. 95 million to Ps. 30 million due to liquidation of advances from suppliers by 46%; prepaid interest by 99% and prepaid others by 25 %.

- Property, plant and equipment went down by Ps. 65 million from Ps. 4, 078 million a year ago to Ps. 4,013 or slightly 2 % as a result of slowdown in business activity.

- Other non-current assets slightly went down by 72% or Ps. 48 million from a year ago of Ps. 67 million to Ps. 18 million primarily due to Ps. 47 million allowance for impairment losses on advances and deposits to contractors and suppliers.

- Trade and other payables went up slightly by 0.2% or Ps. 1.4 million from Ps. 849 million to Ps. 850 million notably in trade payables by 5% from Ps. 733 million to Ps. 768 million; accrued expenses by 5% from Ps. 44 million to Ps. 47 million however there were also decreases in other payables account that offset the increases.

- Loans payable was reduced by Ps. 51 million or 5 % from Ps. 1,061 million to Ps. 1,010 million as a result of partial liquidation of short-term credit facilities of ZZS in relation to their minimal production and selling activities

- Equity dropped to negative Ps. 170 million or 171 % lower from a year ago of Ps. 239 million as a result of the net loss for the year of Ps.419 million although the loss was reduced with a favorable currency translation adjustments of Ps. 9 million.

e. 2015 versus 2014

- **Results of Operations**

The Corporation significantly recovered by registering a net loss of Ps.98 million in 2015 compared to a net loss of Ps. 231 million a year ago. This was due to ZZS renewed operation: (1) increased production and sales volume (2) slightly lower production cost, and (3) favorable market price which resulted in a positive gross margin of Ps. 82 million. TSC as previously reported has nil operation while TKC has minimal production and sales activity resulting to net loss of Ps. 42 million and Ps. 29 million respectively.

Revenue increased by 34% to Ps. 381 million compared to a year ago of Ps. 284 million. Of the total sales, ZZS generated Ps. 375 million while TKC recorded only Ps. 6 million. TSC has stop operation in 2014 brought about by a prolonged power crisis and the scarcity of raw material supply in Mindanao.

The Corporation registered a gross profit of Ps. 82 million in 2015 compared to a gross loss of Ps. 32 million in 2014. As a result of ZZS higher production and sales volume coupled with an improve market conditions and lower production cost, our net loss was reduced significantly by 58% from Ps. 231 million to Ps. 98 million.

Operating expenses went down by Ps. 19 million or 10% lower from the 2014 level of Ps. 198 million. The major driver of lower operating expenses were in the following accounts: a) Finance charges, down by 9% from Ps. 79 million to Ps. 72 million; b) taxes and licenses, down by 31% from Ps. 18 million to Ps. 12 million; c) outside services, down by 33% from Ps. 11 million to Ps. 7 million; d) professional fees , down by 72% from Ps. 4 million to Ps. 1 million; e) rental and utilities, down by 27% from Ps. 12 million to Ps. 9 million; and f) office supplies, down by 76% from Ps.1.3 million to Ps.0.3 million.

- **Financial Condition**

Total assets slightly went down by 1% to Ps. 5,691 million in 2015 from last year's figure of Ps. 5,773 million. The decrease was due to reduced cash equivalents by 31% or Ps. 33 million; inventories decreased by 5% from Ps. 503 million to Ps. 478 million; prepayments went down by 8% from Ps.103 million to Ps. 95 million; and property, plant and equipment by about 1% or Ps.4,108 million to Ps. 4,078 million. The current financial conditions of the Group were attributable significantly due to TSC's nil production, sales and marketing activity primarily due to power crisis and not so competitive market price and conditions. Current assets accounted for 23 % of total assets in 2015 compared to 23% in 2014 resulting in a slightly reduced current ratio of 0.2:1 in 2015.

In 2015, total liabilities slightly went up by Ps. 4 million from Ps. 5,448 million to Ps. 5,452 million. Although there was a significant liquidation of local payables by 10% from Ps. 947 million down to Ps. 849 million this was however offset by an increased in loans payable by 5% from Ps. 1,014 million to Ps. 1,061 million and advances from related parties went up by 2% from Ps. 3,457 million to Ps. 3,511 million.

Our capital base declined to Ps. 239 million compared to Ps. 324 million a year ago. The decline was attributable to the decrease in retained earnings as a result of the net loss for the year of Ps. 98 million however this was reduced with a favorable currency translation adjustment Ps. 12 million . As a result of the decline in capital base, debt to equity ratio went up to 22.83:1 from a year ago of 16.81.

- **Causes for any Material Changes in the Balance Sheet Accounts:**

- Cash and cash equivalents fell by 31% to Ps. 74 million from Ps. 108 million a year ago brought about by the continuing slower market activity and liquidation of local payables.

- Inventories significantly went down by Ps. 24 million or 5% due to nil production and sales in TSC.

- Creditable withholding and value-added taxes slightly increased by Ps. 0.7 million or 0.2 % primarily due to slower activities both in production and selling.

- Other current assets went down by Ps. 8 million or 8% due to liquidation of prepayments, deliveries of inventory in transit and refundable deposits.

- Property, plant and equipment went down by Ps. 30 million from Ps. 4,108 million a year ago to Ps. 4,078 or slightly 1 % as a result of slowdown in business activity.

- Other non-current assets slightly went up by 6% from a year ago primarily due to advances and deposits to contractors and suppliers which increased by Ps. 5 million.

- Trade and other payables went down by Ps. 98 million or 10 % due to slowdown in operation and partial liquidation of local and other payables.

- Loans payable went up by Ps. 47 million or 5 % as a result of renewal of short-term credit facilities of ZZS in relation to their renewed production and selling activities

- Equity dropped to Ps. 239 million or 26 % lower from a year ago of Ps. 324 million as a result of the net loss for the year of Ps. 98 million although the loss was reduced with a favorable currency translation adjustments of Ps. 12 million.

f. Key Performance Indicators

Performance Ratios	2017	2016	2015
Revenue Growth (%)	34%	(28 %)	34%
Gross Profit Margin (%)	6%)	(21 %)	22%
Basic Loss per share 1/	(Ps. 0.90)	(Ps. 0.42)	(Ps. 0.10)
Current Ratio 2/	0.2	0.2	0.2
Debt-to-Equity Ratio 3/	(6.2)	(31.7)	22.8
Return on Equity 4/	(1.9 %)	(4.9 %)	(34.8%)

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)

g. Other Matters

There were no known trends, demands or uncertainties that will have a material impact on the Corporation's liquidity. The Corporation 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.

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 Corporation, including any default or acceleration of an obligation.

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

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

- Any material commitments for capital expenditure:

  The Corporation conducted a Follow-On Offering on November 23, 2007 that raised gross proceeds of Ps. 2, 275 million to finance expansion and development plans of its two (2) subsidiaries, TSC and ZZS. These projects are on-going both in our China and Iligan plants.

- 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.

ITEM 7 – Financial Statements

Please refer to the attached audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2016 which have been prepared in accordance with Philippine Financial Reporting Standards, as audited by Reyes Tacandong & Co.

ITEM 8 - Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

Reyes Tacandong & Co. was appointed as external auditor for the years ended December 31, 2017, 2016 and 2015 to comply with the rotation of external auditors every 5 years. For the years ended December 31, 2010 and prior years, the external audit of the annual financial statements was performed by SGV & Co.

There were no disagreements with the external auditors on any matter pertaining to accounting and financial disclosure.

PART III – CONTROL AND COMPENSATION INFORMATION

ITEM 9 - Directors and Executive Officers

The Corporation's Board of Directors is responsible for the overall management of the business and assets of the Corporation. The Board of Directors is composed of eleven (11) members, each of whom serves for a term of one (1) year until his/her successor is duly elected and qualified.

Board of Directors

The following are the incumbent members of the Board of Directors of the Corporation:

Ben C. Tiu, Filipino, 65, is the **Chairman** of the Corporation. Mr. Tiu is also the President of JTKC Equities, Inc., and Union Pacific Ace Industries, Inc. Mr. Tiu is the Chairman of The Discovery Leisure Co., the owner of Discovery Suites Hotel, The Country Suites at Tagaytay and Discovery Shores Boracay. He served as Chairman and CEO of iRemit, Inc. from 2001 until 2004 and as Director from May 2006 to present. He is also Executive Vice President of Hotel System Asia, Inc., JTKC Realties Corporation and Executive Vice President and Treasurer of Aldex Realty Corporation, Inc., Treasurer of TERA Investments, Inc. Mr. Tiu is also a Corporate Nominee in the Philippine Stock Exchange of Fidelity Securities, Inc. and formerly the Chairman of the Board of Sterling Bank of Asia, Inc., and Vice Chairman of the Board and Chairman of the Executive Committee of International Exchange Bank. He holds a Masters in Business Administration from the Ateneo de Manila University and a degree in Mechanical Engineering from Loyola Marymount University, USA.

Anthony S. Dizon, Filipino, 71, is the **President** of the Corporation. He is also currently the President of Koldstor Centre Philippines, Inc.. He serves as Director of JAPRL Development Corporation and SD Management Corporation. His socio-civic activities include functioning as President of Cold Chain Association of the Philippines, past Director of Makati Sports Club and Past President of Rotary Club of Makati East. He graduated from the University of the East with a degree of B.S. Electrical Engineering. He holds a Masters in Business Administration degree from De La Salle University. He also attended the Management Development Program at the Asian Institute of Management.

Ignatius F. Yenko, Filipino, 66, is the **Vice-Chairman** of the Corporation. He is likewise a Director of Sterling Bank of Asia and member of the Executive Committee, Audit Committee, Risk Committee, Nomination and Compensation Committee and Loan Committee of the bank. He was Management Consultant for Cyan Management Corporation from July 2003 to December 2008. He was previously First Vice-President of Philippine Long Distance Telephone Company until his resignation in July 2003. Mr. Yenko was formerly a Vice President at The Chase Manhattan Bank, N.A. where he worked for almost 11 years. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He holds a Master in Business Management degree from the Asian Institute of Management and was a recipient of the Claude M. Wilson National Scholarship Grant.

A. Bayani K. Tan, Filipino, 62, is a **Director and Corporate Secretary** of the Corporation. He is currently a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (May 1994-

present), Coal Asia Holdings, Inc. (July 2012-present), Destiny Financial Plans, Inc. (2003-present), First Abacus Financial Holdings Corporation (May 1994-present), I-Remit, Inc. (May 2007-present), Pacific Online Systems Corporation (May 2007-present), Philequity Balanced Fund, Inc. (March 2010-present), Philequity Dollar Income Fund, Inc. (March 1999-present), Philequity Foreign Currency Fixed Income Fund, Inc. (March 2010-present), Philequity Fund, Inc. (June 1997-present), Philequity Peso Bond Fund, Inc. (June 2000-present), Philequity PSE Index Fund, Inc. (February 1999-present), Philequity Resources Fund, Inc. (March 2010-present), Philequity Strategic Growth Fund, Inc. (April 2008-present), Sinophil Corporation (December 1993-present), Tagaytay Highlands International Golf Club, Inc. (November 1993-present), Tagaytay Midlands Golf Club, Inc. (June 1997-present), The Country Club at Tagaytay Highlands, Inc. (August 1995-present), The Spa and Lodge at Tagaytay Highlands, Inc. (December 1999-present), Vantage Equities, Inc. (January 1993-present) and Yehey! Corporation (June 2004-present). Mr. Tan is also the Corporate Secretary and a Director of Sterling Bank of Asia Inc. since December 2006. He is also a Director, Corporate Secretary, or both for the following private companies: Destiny LendFund, Inc. (December 2005-present), Discovery World, Inc. (March 2013 as Director, July 2003 –present as Corporate Secretary), Monte Oro Resources & Energy, Inc. (March 2005-present) Palm Concepcion Power Corporation (January 2013-present), and Pharex HealthCorp. (March 2012-present), among others. Atty. Tan is Managing Partner of the law offices of Tan Venturanza Valdez (1988 to present), Managing Director/President of Shamrock Development Corporation (May 1988-present), President of Catarman Chamber Elementary School Foundation, Inc. (August 2012-present) and Managing Trustee of SCTan Foundation, Inc. (1986-present). He is currently the legal counsel of Xavier School, Inc.

Atty. Tan holds a Master of Laws degree from New York University USA (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Atty. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Dexter Y. Tiu, Filipino, 46, is **Treasurer and Director** of the Corporation. He is also a director of Coal Asia Holdings, JTKC Equities, Inc. and Star Equities, Inc., Vice-Chairman of Zhangzhou Stronghold Steel Works Co., Ltd. (a subsidiary of the Company in China), President of Stronghold Steel Corporation, Chairman of

Pacifico Sul Mineracao Corporation and Titan Exploration & Development Corporation. He earned his Bachelor of Science Degree in Mechanical Engineering from De La Salle University in 1993.

Alexander Y. Tiu, Filipino, 42, is a **Director** of the Corporation. He is President of Goodyear Steel Pipe Corporation and Executive Vice-President of British Wire Industries Corporation and Goodway Marketing Corporation. Mr. Tiu earned his Bachelor's Degree in Economics from Simon Fraser University in 1999.

Enrico G. Valdez, Filipino, 57, is a **Director** of the Corporation. He is likewise a Director of Manta Ray Holdings, Inc., Lion City Landholdings, Inc. and Harbor Holdings Company, Inc. and Corporate Secretary of TBWA Santiago Mangada Puno Advertising, Inc. and Jan De Nul (Phils.), Inc. He is a Partner of Tan Venturanza Valdez and Treasurer of T & V Realty Holdings Inc. He took up his Bachelor of Science Degree in Business Administration from the Philippine School of Business Administration and his Bachelor of Laws Degree from the Ateneo de Manila University. He also has a Master Degree in Business Administration from the University of the Philippines. He is a member of the Integrated Bar of the Philippines and Philippine Institute of Certified Public Accountants. He served as former Director of the Tax Management Association of the Philippines and former Vice Chairman of the Taxation Committee of the Inter-Pacific Bar Association.

Vicente V. de Villa, Jr., a Filipino, 84, is an **Independent Director** of the Corporation. He currently holds the position of Chairman and President of VICON Realty Corporation (1972-present), Director of Heavenly Angel Memorial Park (2006-present), EL Message Services (2006-present) and ELAD Telecom Phils., Inc. (2006-present). He is also the Executive Director of EL Enterprises, Incorporated, EL International Holdings (BVI) Limited (1989-present). Likewise, he is a Foreign Representative of JDP International (USA), Central International Corporation (KOREA), NW Technologies International, Inc. (USA) and BSI Corporate Services (ITALY). He holds a Bachelor of Laws Degree from Ateneo de Manila, Padre Faura.

Prudencio C. Somera, Jr., Filipino, 73, is a **Director** of the Corporation. He is an Independent Director of Basic Petroleum Corporation (1997-present), another publicly-listed corporation, and Director of Philcomsat Holdings Corporation (2004-present). He is a member Board of Advisers of Basic Energy Corporation since August 2008 (board member, 1977 – 2008). He was previously Director of iVantage, Inc. (1998-2000) and Acoje Oil Exploration and Minerals Corporation (1997-1999). A columnist of Philippine Daily Inquirer, he holds a Master of Business Administration Degree from the University of the Philippines.

Victor C. Fernandez, Filipino, 74, is an **Independent Director** of the Corporation. He holds a Bachelor of Laws degree from the University of the Philippines (Class of 1971) where he was a member of the Order of the Purple feather (U.P. College of Law Honor Society) and ranked tenth in his class. He has a Bachelor of Arts major in Economics degree from the University of the Philippines (Class of 1967).

Atty. Fernandez served as Deputy Ombudsman for Luzon from 2003 to 2010. He also practiced law as Partner in the Fernandez Pacheco & Dizon Law Offices. He currently serves as Commissioner on the Commission on Bar Discipline of the Integrated Bar of the Philippines and received several awards including the Distinguished Service Award of the Integrated Bar of the Philippines and awarded as the Most Outstanding Commissioner of the Commission on Bar Discipline (1995 to 1997).

Pablito C. Bermundo, Filipino, 75, is an **Independent Director** of the Corporation. He holds a Bachelor of Science degree in Commerce – Accounting and is a Certified Public Accountant. He is currently a Director/Consultant in Symrise, Inc., a company where he was once the Chief Executive Officer. Symrise, Inc. is engaged in the manufacture and marketing of flavors and fragrances. He is also currently serving as Executive Director of the Texicon Group of Companies.

Mr. Bermundo served as Chairman and Director of Sicaf Scientific, Inc., and held managerial positions in 3M Philippines (as Finance Director), Evertex Industries, Inc. (as Manager of Treasury and Banking Department). Mr. Bermundo also served as the President of the Rotary Club of San Juan North from 2006 to 2007.

Executive Officers

Anthony S. Dizon - President and Chief Operating Officer

A. Bayani K. Tan – Corporate Secretary

Dexter Y. Tiu – Treasurer

Wilfrido O. Gamboa, Filipino, 63, is the **Head of Corporate Services and Chief Compliance Officer** of the Corporation. Before he joined the Corporation, he was president of Fabricom Realty & Development Corporation. Previous experiences of Mr. Gamboa include fund sourcing, rehabilitation planning and debt portfolio restructuring. He has also experiences in the real property sector with tasks including developing new real estate projects. He graduated with a degree of Bachelor of Arts in Economics and Bachelor of Science in Business Administration from De La Salle University.

Efren A. Realeza, Jr, Filipino, 57, is the **Head of Accounting Services** and OIC-Chief Finance Officer of the Corporation. Prior to joining the Corporation, he was the Audit Manager of VBP Group of Companies-Dermpharma and Dermclinics, Triumph Development Corporation - a cement manufacturing company with overseas operation and Ajinomoto Philippines Corporation and later as Cost Accounting Manager. He managed also the financial performance of the following subsidiaries of APC like Flavor Food Products International Inc., Union Hikari Fertilizer International, Inc. and Global Cebu Foods Corporation. He graduated with a degree of Bachelor of Science in Accountancy from the Polytechnic University of the Philippines. He is a Certified Public Accountant.

Ann Margaret K. Lorenzo, Filipino, 29, is the incumbent **Assistant Corporate Secretary** of TKC Metals Corporation. She is currently the Corporate Secretary of the following companies: Athena Ventures, Inc. (2017 to date), and Galileo Software Services Inc. (2015 to date). She is likewise the Assistant Corporate Secretary of the following listed companies: Crown Asia Chemicals Corporation (2017 to date), Coal Asia Holdings, Inc. (2017 to date), I-Remit, Inc. (2017 to date), and Vantage Equities, Inc. (2017 to date) and Assistant Corporate Secretary of the following reporting companies: Philequity PSE Index Fund, Inc. (2017 to date), Philequity Fund, Inc. (2017 to date), Philequity Peso Bond Fund, Inc. (2017 to date), Philequity Dollar Income Fund, Inc. (2017 to date), and Philequity Dividend Yield Fund, Inc. (2017 to date). She is also Assistant Corporate Secretary of the following private companies: Philequity Strategic Growth Fund, Inc. (2017 to date), Philequity Balanced Fund, Inc. (2017 to date), Philequity Resources Fund, Inc. (2017 to date), Philequity Foreign Currency Fixed Income Fund, Inc. (2017 to date), Aldex Realty Corporation (2017 to date), Oakridge Properties, Inc. (2017 to date), Etruscan Resources Philippines, Inc. (2015 to date), and Tao Mohin Resources, Inc. (2015 to date).

Ms. Lorenzo is an Associate at Tan Venturanza Valdez. She obtained her Bachelor of Arts degree in English Studies and Juris Doctor degree from the University of the Philippines in 2010 and 2014, respectively. She was admitted to the Philippine bar in April 2015.

Ruben C. Tiu - Filipino, 62, is the **Chief Liaison Officer** of the Corporation. He is also the Chairman and President of Star Equities, Inc., President of JTKC Realty Corporation, Pan Asean Multi Resources Corp., Aldex Realty Corporation, Oakridge Properties, Inc., Hotel Systems Asia, Inc., JTKC Land, Inc., The Discovery Leisure Company, Inc., and Discovery Country Suites, Inc., Executive Vice President of JTKC Equities, Inc. and Union Pacific Ace Industries, Inc., and a Director of Palawan Cove Corporation, Discovery World Corporation, Cay Islands Corporation, Tera Investments, Inc., Sonoran Corporation, Sterling Bank of Asia, Inc., and I-Remit, Inc. He was previously a director of Southern Visayas Property Holdings, Inc. (2003 - 2009), International Exchange Bank (1995 - 2006), and I - Remit, Inc. (2002 - 2004). He holds a Bachelor of Science degree in Business Administration from the De La Salle University.

John Kacho Y. Tiu, Jr. – Filipino, 41, is the **Chief Logistic Officer** of the Corporation. He holds a Bachelor of Science degree in Electrical Engineering Minor in Mathematics from the University of Washington, Seattle, Washington, USA. He is currently the Chairman and President of Tera Investments, Inc; the President of Southern Visayas Property Holdings, Inc. and Fidelity Securities, Inc.; the Vice President and a Director of JTKC Realty Corporation, and, the Treasurer and a Director of Sonoran Corporation, Cay Islands Corporation, Palawan Cove Corporation, Tofino Corporation, Star Equities, Inc., Discovery Country Suite, Inc., JTKC Land, Inc., JTKC Equities, Inc., Touch Solutions, Inc., and The Discovery Leisure Company, Inc. He is also a director of Zhangzhou Stronghold Steel Works Co., Ltd., Sagesoft Solutions, Inc., Oakridge Properties, Inc., and I-Remit, Inc.

Significant Employees

Although the Corporation has and will likely continue to rely significantly on the continued individual and collective contributions of its senior management team, the Corporation is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Corporation and will not compete upon termination.

Family Relationships

Messrs. Ben C. Tiu, Dexter Y. Tiu and Alexander Y. Tiu, all Directors of the Corporation, are siblings.

Involvement in Certain Legal Proceedings

None of the members of the Corporation's Board of Directors and its Executive Officers are involved in criminal, bankruptcy or insolvency investigation or proceedings against them.

ITEM 10 – Executive Compensation

As discussed under Item 1, Part I, above, we had initiated corporate restructuring that involved the (a) change in primary purpose from being a provider of complete IT solutions to that of a holding company, (b) change in corporate name from SQL*Wizard to TKC Steel, (c) increase in authorized capital, and (d) assignment and/or sale of all and/or substantially all of the IT business assets to a new corporation. After effecting all these changes, new sets of members of Board of Directors and Executive Officers were appointed on various dates in 2007. The executive compensation information that is presented below covered the Executive Officers and Directors of TKC for 2016, 2017 and 2018.

All members of the Board of Directors receive per diem per meeting only.

2016

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Nicanor L. De la Paz Chief Financial Officer			
Wilfrido O. Gamboa Head of Corporate Services and Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	7,676,500		
Aggregate Compensation of all above- Named Officers and Directors	7,676,500		

2017

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Nicanor L. Dela Paz Chief Financial Officer			
Wilfrido O. Gamboa Head of Corporate Services/ Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	5,336,500		
Aggregate Compensation of all Above-named Officers and Directors	5,351,500		

2018 (Estimated)

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Anthony S. Dizon President and Chief Operating Officer			
Wilfrido O. Gamboa Head of Corporate Services/ Chief Compliance Officer			
Efren A. Realeza Jr. OIC-Chief Finance Officer			
Aggregate Compensation of all Above-named Officers	5,336,500		
Aggregate Compensation of all Above-named Officers and Directors	5,380,500		

ITEM 11 - Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2017, the following stockholders beneficially own more than 5% of the Corporation's Outstanding and Issued Common Shares:

Title of Class	Name/Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares	Percentage Of Holdings
Common	Star Equities, Inc. 2nd Floor, JTKC Center 2155 Pasong Tamo Makati City		Filipino	667,000,598	70.96%

Common	PCD Nominee Corporation		Filipino	266,850,021	28.38%

Security Ownership of Directors and Management

Title of Each Class	Name of Record/Beneficial Owner	Number of Shares and Nature of Record/ Beneficial Ownership	Percentage
Common	Tiu, Alexander Y.	1	--
	Tan, A. Bayani K.	1	--
	De Villa, Vicente V.	1	--
	Dizon, Anthony S.	1	--
	Somera, Jr., Prudencio C.	1	--
	Tiu, Ben C.	1	--
	Tiu, Dexter Y.	1	--
	Valdez, Enrico G.	1	--
	Yenko, Ignatius F.	1	--
	Pablito B. Bermundo	1	--
	Victor C. Fernandez	1	--

Voting Trust Holders of 5% or more

There is no person holding more than 5% of any class of the Corporation's securities under a voting trust or similar agreement.

ITEM 12 – Certain Relationship and Related Transactions

The Corporation entered into the following transactions with related parties:

Date of Execution	Parties	Nature	Cause/Consideration
April 30, 2007	TKC and Star Equities,	Agreement for Assignment of Advances	Acquisition at cost of the entire interest in the advances of SEI in Billions Steel International

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersign, thereunto duly authorized, in the City of Makati on April ____, 2018.

By:

Ben C. Tiu
Chairman of the Board

Anthony S. Dizon
President and Chief Operating Officer

Dexter Y. Tiu
Treasurer

Efren A. Realeza Jr.
OIC-Chief Financial Officer

Ann Margaret K. Lorenzo
Assistant Corporate Secretary

SUBSRIBED AND SWORN to before me this _______day of APR 26 2018 2018 affiants exhibiting to me his/her Passport, as follows:
MAKATI CITY

NAMES	PASSPORT NO.	VALID UNTIL	PLACE OF ISSUE
Ben C. Tiu	EC3799702	03/25/2020	DFA NCR East
Anthony S. Dizon	EC5379162	09/17/2020	DFA NCR East
Dexter Y. Tiu	PO3881521	09/24/2021	DFA Manila
Efren A. Realeza Jr.	EC6208182	12/13/2020	DFA NCR Central
Ann Margaret K. Lorenzo	EC1023699	05/07/2019	DFA NCR East

Doc. No. 260
Page No. 74
Book No. 221
Series of 2018

RUBEN M. T. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31 2019
2734M. AURORA ST., MAKATI CITY
IBP NO. 017527/CY 2018 APPT.NO.M.127
ROLL NO. 28947/MCE-4/NO. 0006324/11-22-17
PTR NO. MKT. 6607723/1-3-18 MAKATI CITY

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A1996-10620

COMPANY NAME

TKC METALS CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No./Street/Barangay/City/Town/Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
–	(02) 864-0734 to 36	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
40	Last Friday of July	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Efren A. Realeza Jr.	earealeza@yahoo.com	(02) 864-0734 to 36	0918-979-8300

CONTACT PERSON'S ADDRESS

2nd Floor W Tower Condominium 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.

TKC METALS

Strength in vision

"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS"

The Management of TKC Metals Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible in overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: ____________________
Ben C. Tiu
Chairman of the Board

Signature: ____________________
Anthony S. Dizon
President and Chief Operating Officer

Signature: ____________________
Efren A. Realeza, Jr.
OIC Chief Financial Officer

SUBSCRIBED AND SWORN TO BEFORE ME THIS 17 MAY 2018 DAY OF 20____ IN THE CITY OF MAKATI, AFFIANT EXHIBITING TO ME HIS/HER VALID ID WITH NUMBERS ______ ISSUED ON ________, ISSUED AT ________

ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST.
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 023957/01-04-2018/Pasig City
PTR NO MKT-6614020, 01-03-2018/MAKATI CITY
MCLE Compliance No. V-0004514/10-31-2014

DOC. NO. 330
PAGE NO. 67
BOOK NO. 56
SERIES OF 2018

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
TKC Metals Corporation
Unit B1-A/C, 2nd Floor
Building B, Karrivin Plaza
2316 Chino Roces Avenue Extension
Makati City

Opinion

We have audited the consolidated financial statements of TKC Metals Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017, 2016 and 2015 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

The Group's main steel manufacturing subsidiaries, Treasure Steelworks Corporation (Treasure) and ZhangZhou Stronghold Steel Works Co. Ltd. (ZZ Stronghold) located in Iligan City and Xiamen, China, respectively, have been incurring losses. Consequently, the Group has consolidated total comprehensive loss of ₱728.4 million and ₱409.2 million for the years ended December 31, 2017 and 2016, respectively and capital deficiency of ₱898.7 million as at December 31, 2017. Moreover, the two subsidiaries had to suspend its plant construction projects which aggregated ₱ 3,104.6 million and ₱ 3,688.3 million as at December 31, 2017 and 2016, respectively.

These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The Group's related parties, however, have continued to provide the necessary financial support to meet the Group's maturing obligations. As at December 31, 2017, advances from related parties aggregated ₱3,560.3 million. Moreover, the Group has been negotiating with prospective investors for additional financing to complete the Group's construction and resume commercial operations. The Group's management plan for Treasure and ZZ Stronghold is disclosed in Note 1.

Accordingly, the Group continues to prepare its accompanying consolidated financial statements using the going concern basis of accounting. Our opinion is not modified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined below as key audit matters to communicate in our report.

- *Impairment of Property, Plant and Equipment*

  As at December 31, 2017, the Group has property, plant and equipment amounting to ₱3,404.9 million, representing 73% of the total assets.

  The Group is required to perform an impairment assessment of its property, plant and equipment at each reporting date whenever there is any indication of impairment loss. Where the carrying amount exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

  Determining the recoverable amounts of property, plant and equipment using fair value requires significant judgment and estimation, particularly in selecting the appropriate valuation methodology and in determining the underlying assumptions. The fair value of property, plant and equipment are subject to significant variability because of changing market conditions. Moreover, the impairment review is significant to our audit because the carrying amount of the Group's property, plant and equipment is material to the consolidated financial statements. Any resulting impairment loss could have a material adverse impact on the Group's financial position and financial performance.

  The fair values of the Group's property, plant and equipment were assessed by the management based on independent valuations prepared by independent property valuers. Our audit procedures included, among others, evaluating the qualifications, experience and competence of the independent property valuers engaged by management, understanding and reviewing the valuation methods and the assumptions applied, evaluating the valuation methodology used and assessing the key assumptions adopted in the valuations. We reviewed the adequacy of the Group's disclosures about those assumptions, the outcome of which the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

Based on available evidence, the Group has assessed that the fair value of property, plant and equipment is lower than its carrying amount. Consequently, provision for impairment loss of ₱683.5 million on property, plant and equipment was recognized in 2017 (see Note 9).

- *Net Realizable Value of Inventories*

  The Group's inventories, which represents 8% of the Group's total assets, are accounted for in accordance with PAS 2, *Inventories*. As a result of the suspension of the Group's operations in Iligan City, there has been no significant movement of its inventories in stock pile since 2013. The volume of the Group's inventories changes significantly through time and the impact of the market price of the finished goods due to changing economic trends can be material and as such the inventories require significant amount of estimation and judgment in its determination.

  To validate the management's assessment on the net realizable value of inventories, we evaluated the accuracy of historical information and data trends, changing economic trends applied against the current balances, and the assumptions and estimates used in the management's assessment of the net realizable value of the inventories.

  Based on the available evidence, we have reviewed management's assumptions applied in relation to the Group's inventory valuation to be reasonable.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditor's report is Emmanuel V. Clarino.

REYES TACANDONG & CO.

Emmanuel V. Clarino

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 1021-AR-2 Group A
Valid until March 27, 2020
BIR Accreditation No. 08-005144-005-2017
Valid until January 13, 2020
PTR No. 6607954
Issued January 3, 2018, Makati City

May 11, 2018
Makati City, Metro Manila

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	4	₱34,381,947	₱31,061,816
Trade and other receivables	5	265,935,192	210,547,633
Inventories	6	360,836,597	380,418,762
Due from related parties	14	39,976,535	39,976,535
Creditable withholding tax (CWT) and input value-added tax (VAT)	7	294,575,115	295,388,370
Other current assets	8	25,518,652	29,848,638
Total Current Assets		1,021,224,038	987,241,754
Noncurrent Assets			
Property, plant and equipment	9	3,404,944,583	4,012,508,653
Leasehold rights	10	230,807,985	225,953,272
Other noncurrent assets	11	31,031,205	18,415,580
Total Noncurrent Assets		3,666,783,773	4,256,877,505
		₱4,688,007,811	₱5,244,119,259
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Trade and other payables	12	₱955,146,381	₱850,456,373
Loans payable	13	1,048,287,715	1,009,951,173
Due to related parties	14	3,560,305,233	3,522,827,405
Total Current Liabilities		5,563,739,329	5,383,234,951
Noncurrent Liabilities			
Retirement liability	20	7,763,612	9,107,262
Deferred tax liabilities	25	15,227,983	22,100,732
Total Noncurrent Liabilities		22,991,595	31,207,994
Total Liabilities		5,586,730,924	5,414,442,945
Capital Deficiency Attributable to Equity Holders of the Parent Company			
Capital stock	15	940,000,000	940,000,000
Additional paid-in capital		1,983,047,906	1,983,047,906
Deficit		(4,130,508,313)	(3,292,266,675)
Other equity reserves		264,897,139	144,356,792
		(942,563,268)	(224,861,977)
Non-controlling Interest		43,840,155	54,538,291
Total Capital Deficiency		(898,723,113)	(170,323,686)
		₱4,688,007,811	₱5,244,119,259

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	4	**₱34,381,947**	₱31,061,816
Trade and other receivables	5	**265,935,192**	210,547,633
Inventories	6	**360,836,597**	380,418,762
Due from related parties	14	**39,976,535**	39,976,535
Creditable withholding tax (CWT) and input value-added tax (VAT)	7	**294,575,115**	295,388,370
Other current assets	8	**25,518,652**	29,848,638
Total Current Assets		**1,021,224,038**	987,241,754
Noncurrent Assets			
Property, plant and equipment	9	**3,404,944,583**	4,012,508,653
Leasehold rights	10	**230,807,985**	225,953,272
Other noncurrent assets	11	**31,031,205**	18,415,580
Total Noncurrent Assets		**3,666,783,773**	4,256,877,505
		₱4,688,007,811	₱5,244,119,259
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Trade and other payables	12	**₱955,146,381**	₱850,456,373
Loans payable	13	**1,048,287,715**	1,009,951,173
Due to related parties	14	**3,560,305,233**	3,522,827,405
Total Current Liabilities		**5,563,739,329**	5,383,234,951
Noncurrent Liabilities			
Retirement liability	20	**7,763,612**	9,107,262
Deferred tax liabilities	25	**15,227,983**	22,100,732
Total Noncurrent Liabilities		**22,991,595**	31,207,994
Total Liabilities		**5,586,730,924**	5,414,442,945
Capital Deficiency Attributable to Equity Holders of the Parent Company			
Capital stock	15	**940,000,000**	940,000,000
Additional paid-in capital		**1,983,047,906**	1,983,047,906
Deficit		**(4,130,508,313)**	(3,292,266,675)
Other equity reserves		**264,897,139**	144,356,792
		(942,563,268)	(224,861,977)
Non-controlling Interest		**43,840,155**	54,538,291
Total Capital Deficiency		**(898,723,113)**	(170,323,686)
		₱4,688,007,811	₱5,244,119,259

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2017	2016	2015
REVENUE		₱363,589,343	₱272,381,278	₱380,549,749
COSTS OF GOODS SOLD	17	(341,240,630)	(328,906,407)	(298,509,776)
GROSS INCOME (LOSS)		22,348,713	(56,525,129)	82,039,973
OPERATING EXPENSES	18	(183,857,335)	(168,814,567)	(156,481,109)
PROVISION FOR IMPAIRMENT LOSS	19	(683,665,830)	(152,630,982)	–
INTEREST EXPENSE	13	(63,899,500)	(57,185,057)	(71,895,339)
OTHER INCOME – Net	24	42,203,285	16,459,773	48,867,177
LOSS BEFORE INCOME TAX		(866,870,667)	(418,695,962)	(97,469,298)
PROVISION FOR (BENEFIT FROM) INCOME TAX	25			
Current		603,793	661,657	654,443
Deferred		(6,872,749)	–	–
		(6,268,956)	661,657	654,443
NET LOSS		(860,601,711)	(419,357,619)	(98,123,741)
OTHER COMPREHENSIVE INCOME				
To be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations		129,577,081	9,838,724	12,562,541
Not to be reclassified to profit or loss in subsequent periods				
Remeasurement gain on retirement liability, net of deferred tax	20	2,625,203	321,971	–
		132,202,284	10,160,695	12,562,541
TOTAL COMPREHENSIVE LOSS		(₱728,399,427)	(₱409,196,924)	(₱85,561,200)
NET LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		₱838,241,638	₱397,238,827	₱96,560,406
Non-controlling interests		22,360,073	22,118,792	1,563,335
		₱860,601,711	₱419,357,619	₱98,123,741
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		₱717,701,291	₱387,963,618	₱85,128,494
Non-controlling interests		10,698,136	21,233,306	432,706
		₱728,399,427	₱409,196,924	₱85,561,200
BASIC LOSS PER SHARE	27	₱0.89	₱0.42	₱0.10

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Other Equity Reserves (Net of Deferred Tax)					
	Capital Stock	Additional Paid-in Capital	Deficit	Cumulative Remeasurement Gain (Loss) on Retirement Liability	Cumulative Translation Adjustments	Adjustment to Equity (see Note 16)	Capital Deficiency Attributable to Equity Holders of the Parent Company	Non-controlling Interest	Total Equity
Balance at December 31, 2016	₱940,000,000	₱1,983,047,906	(₱3,292,266,675)	(₱326,385)	₱191,127,566	(₱46,444,389)	(₱224,861,977)	₱54,538,291	(₱170,323,686)
Net loss	–	–	(838,241,638)	–	–	–	(838,241,638)	(22,360,073)	(860,601,711)
Other comprehensive income	–	–	–	2,625,203	117,915,144	–	120,540,347	11,661,937	132,202,284
Balance at December 31, 2017	**₱940,000,000**	**₱1,983,047,906**	**(₱4,130,508,313)**	**₱2,298,818**	**₱309,042,710**	**(₱46,444,389)**	**(₱942,563,268)**	**₱43,840,155**	**(₱898,723,113)**
Balance at December 31, 2015	₱940,000,000	₱1,983,047,906	(₱2,895,027,848)	(₱648,356)	₱182,174,327	(₱46,444,389)	₱163,101,640	₱75,771,598	₱238,873,238
Net loss	–	–	(397,238,827)	–	–	–	(397,238,827)	(22,118,792)	(419,357,619)
Other comprehensive income	–	–	–	321,971	8,953,239	–	9,275,210	885,485	10,160,695
Balance at December 31, 2016	₱940,000,000	₱1,983,047,906	(₱3,292,266,675)	(₱326,385)	₱191,127,566	(₱46,444,389)	(₱224,861,977)	₱54,538,291	(₱170,323,686)
Balance at December 31, 2014	₱940,000,000	₱1,983,047,906	(₱2,798,467,442)	(₱648,356)	₱170,742,415	(₱46,444,389)	₱248,230,134	₱76,204,304	₱324,434,438
Net loss	–	–	(96,560,406)	–	–	–	(96,560,406)	(1,563,335)	(98,123,741)
Other comprehensive income	–	–	–	–	11,431,912	–	11,431,912	1,130,629	12,562,541
Balance at December 31, 2015	₱940,000,000	₱1,983,047,906	(₱2,895,027,848)	(₱648,356)	₱182,174,327	(₱46,444,389)	₱163,101,640	₱75,771,598	₱238,873,238

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2017	2016	2015
		Years Ended December 31		
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		(₱866,870,667)	(₱418,695,962)	(₱97,469,298)
Adjustments for:				
Provision for impairment losses	19	683,665,830	152,630,982	–
Interest expense	13	63,899,500	57,185,057	71,895,339
Depreciation and amortization		40,625,417	56,238,062	61,194,615
Write off of receivables	5	17,701,158	29,142,842	1,474,653
Unrealized foreign exchange loss (gain)	24	(12,654,988)	22,235,725	(6,143,623)
Loss (gain) on sale of transportation equipment	24	(2,406,779)	–	17,751
Interest income	4	(87,916)	(124,372)	(866,785)
Gain on reversal of inventory write-down	6	–	–	(131,338)
Operating income (loss) before working capital changes		(76,128,445)	(101,387,666)	29,971,314
Decrease (increase) in:				
Trade and other receivables		(119,381,662)	35,520,376	(10,028,318)
Inventories		116,558,792	31,016,131	23,054,061
CWT and input VAT		813,255	104,880	(669,227)
Due from related parties		–	(9,399)	–
Other current assets		(83,340,764)	63,386,872	8,985,682
Increase (decrease) in:				
Trade and other payables		188,684,064	44,445,404	(80,412,511)
Retirement liability		1,281,553	692,468	994,026
Net cash generated from (used for) operations		28,486,793	73,769,066	(28,104,973)
Interest paid		(64,759,150)	(57,185,057)	(71,737,694)
Income tax paid		(603,793)	(661,657)	(654,443)
Interest received		87,916	124,372	866,785
Net cash provided by (used in) operating activities		(36,788,234)	16,046,724	(99,630,325)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	9	(490,686)	(10,411,640)	(11,129,877)
Decrease (increase) in other noncurrent assets		(12,615,625)	1,797,484	(3,160,865)
Proceeds from disposals of property, plant and equipment		2,446,429	3,152,989	99,199
Net cash used in investing activities		(10,659,882)	(5,461,167)	(14,191,543)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of loans payable		13,984,534	472,348,731	515,385,757
Due to related parties		114,227,794	26,890,605	53,514,533
Payments to related parties		(76,749,966)	(15,338,520)	(184,489)
Payments of loans payable		–	(523,939,143)	(483,355,178)
Net cash provided by (used in) financing activities		51,462,362	(40,038,327)	85,360,623

(Forward)

	Note	2017	2016	2015
		Years Ended December 31		
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**(694,115)**	(13,470,657)	(5,164,018)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,320,131**	(42,923,427)	(33,625,263)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**31,061,816**	73,985,243	107,610,506
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱34,381,947**	₱31,061,816	₱73,985,243
COMPONENTS OF CASH AND CASH EQUIVALENTS				
Cash on hand		**₱19,596**	₱6,000,409	₱41,731
Cash in banks		**29,706,098**	24,185,629	73,930,734
Cash equivalents		**4,656,253**	875,778	12,778
		₱34,381,947	₱31,061,816	₱73,985,243

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT YEARS ENDED DECEMBER 31, 2017 AND 2016 AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

1. **Corporate Information**

General Information

TKC Metals Corporation, formerly TKC Steel Corporation (the Parent Company or TKC) 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.

The following are the subsidiaries of the Parent Company:

Name of Subsidiaries	Country of Incorporation	Nature of Business	Percentage of Ownership 2017	2016
Billions Steel International Limited (Billions)	Hong Kong	Investment holdings	100%	100%
Zhangzhou Stronghold Steel Works Co. Ltd. (ZZ Stronghold)**	People's Republic of China or PRC	Manufacture of steel pipes	91%	91%
Treasure Steelworks Corporation (Treasure)	Philippines	Manufacture of steel products	98%	98%
Campanilla Mineral Resources, Inc. (Campanilla)*	Philippines	Mineral production	70%	70%

* *Has not commenced commercial operations as at December 31, 2017*
** *Through Billions*

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.

The principal office address of the Group is 2nd Floor W Tower Condominium 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig City.

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

Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 were authorized and approved for issuance by the Board of Directors on May 11, 2018.

Status of Operations of the Parent Company

In 2015, the Parent Company stopped marketing and selling of purlins and galvanized iron sheets, its main business activity other than as a holding company. The Parent Company has total comprehensive loss of ₱281.1 million, ₱21.5 million and ₱29.6 million for the years ended

December 31, 2017, 2016 and 2015, respectively. The Parent Company is actively negotiating with potential investors to resume operations of Treasure.

Status of Operations of Main Steel Subsidiaries

Treasure
As at December 31, 2017, Treasure has not resumed operations. Treasure's total comprehensive loss for the years ended December 31, 2017, 2016 and 2015 amounted to ₱732.7 million, ₱178.2 million, and ₱42.4 million respectively, resulting to a capital deficiency of ₱2,527.3 million and ₱1,794.6 million as at December 31, 2017 and 2016, respectively.

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. Treasure, however, is planning to produce nickel concentrate and nickel pig iron instead to lessen the plant's power supply requirement. By shifting to nickel concentrate and nickel pig iron, the power supply requirement will drop to 5 megawatts per hour (MWPH) as compared to producing steel billets at 15 to 20 MWPH.

Treasure has almost completed the refurbishment and upgrade of the billet manufacturing plant and the installation of the iron ore beneficiating plant, sintering plant and the first blast furnace plant. An investment from a prospective investor will be used to complete the plant facilities. These facilities can also be used to produce nickel concentrate and nickel pig iron.

There has been a long delay in getting a potential investor to complete Treasure's construction and for it to resume operations. Management has decided to obtain an independent property valuation to determine the fair value of its property, plant and equipment. Based on this valuation, impairment loss amounting to ₱683.5 million was recognized in 2017 (see Note 9).

ZZ Stronghold
ZZ Stronghold has a capital deficiency of ₱866.5 million and ₱903.1 million as at December 31, 2017 and 2016, respectively. ZZ Stronghold has been intensifying its marketing efforts, increased sales, generated positive results and reduced capital deficiency in 2017.

The market value of property, plant and equipment and leasehold rights of ZZ Stronghold is higher than the recorded net carrying amount of ₱1,914.7 million as at December 31, 2017 based on a latest independent assessment of the fair value of these assets (see Note 9).

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and SEC provisions.

Measurement Bases
The consolidated financial statements are presented in Philippine Peso (PHP), the Group's functional and presentation currency. All values represent absolute amounts except when otherwise stated.

The functional currency of ZZ Stronghold is Chinese Renminbi (RMB).

The financial statements of the Group have been prepared on the historical cost basis of accounting. Historical cost is generally based on the fair value of the consideration given in exchange for an asset. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

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

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

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

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

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

Further information about the assumptions made in measuring fair value is included in the following notes to the financial statements.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

- Amendments to PFRS 12, *Disclosures of Interests in Other Entities - Clarification of the Scope of the Standard* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the disclosure requirements in PFRS 12 apply to interests in entities within the scope of PFRS 5, Non-current Assets Held for Sale and Discontinued Operations except for summarized financial information for those interests (i.e. paragraphs B10-B16 of PFRS 12).

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Amended PFRS Not Yet Adopted
Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39 (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

  For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

  The derecognition provisions are carried over almost unchanged from PAS 39.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Effective for annual periods beginning on or after January 1, 2019 -

- PFRS 16, *Leases* – The biggest change introduced by the new standard is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the financial statements of the Group. Additional disclosures will be included in the financial statements, as applicable.

The Group anticipates that the application of PFRS 15 might have a significant effect on amounts reported in respect of the Group's revenue. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Basis of Consolidation

Subsidiaries - Subsidiaries are entities controlled by the Parent Company. The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The Parent Company has control when it is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; or
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of net results and net assets not held by the Parent Company. They are presented in the consolidated statements of financial position within equity, apart from equity attributable to equity holders of the parent and are separately disclosed in the consolidated statement of comprehensive income.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (excluding any goodwill) and liabilities of the former subsidiary from the consolidated statements of financial position;

- Recognizes any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRS. That retained interest is remeasured and the remeasured value is regarded as the fair value on initial recognition of a financial asset in accordance with PFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture;

- Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

Business Combinations and Goodwill - Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are recognized as expense.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured. Subsequent settlement is accounted for within equity. In instance where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts the combination using provisional values. Adjustments to these provisional values as a result of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date and goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions Eliminated on Consolidation - All intra-group balances, transactions, income and expenses and unrealized gains and losses are eliminated in full.

Accounting Policies of Subsidiaries - The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of a financial instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities.

"Day 1" Differences. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of comprehensive income. In cases where there is no observable data on inception, the Group deemed the transactions price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss 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.

Classification of Financial Instruments. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

The Group does not have financial instruments classified as financial assets or financial liabilities at FVPL and HTM investments.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets that are designated as such or are not classified as another category of financial assets. After initial measurement, AFS financial assets are subsequently carried at fair value with unrealized gains or losses recognized in other comprehensive income. These fair value changes are recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Investment in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured are carried at cost.

The Group's investment in club shares is classified under this category and is carried at cost since it does not have available quoted market price.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents, trade and other receivables (excluding advances to officers and employees), due from related parties and refundable deposits (presented under "Other noncurrent assets") are classified under this category.

Other Financial Liabilities. Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain obligations to deliver cash or another financial asset to the holder as to settle the obligation other than by the exchange of fixed amount of cash or another financial asset for a fixed number of own equity.

The Group's trade and other payables (excluding accruals for documentary stamp tax (DST), real property tax, and statutory payables), loans payable and due to related parties are classified under this category.

The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative accretion using the effective interest method of any difference between that initial amount and the maturity amount. Interest expense, including premiums payable on settlement or redemption and direct issue costs, is charged to the consolidated statement of comprehensive income on an accrual basis using the effective interest method. Interest expense is added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derecognition of Financial Assets and Liabilities

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

a. the right to receive cash flows from the asset has expired;

b. 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

c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Offsetting of Financial Assets and Liabilities. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The amount of the loss shall be recognized in the statement of comprehensive 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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Inventories
Inventories consist of materials and supplies that will be used in rendering the Group's services to its customers. These are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of marketing and distribution and the estimated costs necessary to make the sale. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

CWT and Input VAT

CWT. CWT represents the amount withheld by the Group's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

VAT. Revenue, expenses and assets (excluding accounts and other receivables) are recognized net of the amount of VAT.

Deferred Input VAT. In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed ₱1.0 million, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

Deferred input VAT represents the unamortized amount of input VAT on capital goods and input VAT on the unpaid portion of availed services, including the use or lease of properties.

Deferred input VAT on capital goods is classified as current assets if it is expected to be claimed against output VAT no more than 12 months after the reporting date. Otherwise, these are classified as noncurrent assets.

Other Current Assets
Other current assets consist of advances to suppliers and prepayments.

Advances to Suppliers. Advances to suppliers are amounts paid in advance for the purchase of goods and services. These are carried at the amount of cash paid in the statement of consolidated financial position and are recognized to the corresponding asset account when the goods or services for which the advances were made are received.

Prepayments. Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time. Prepayments are classified as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment value.

The initial cost of property and equipment comprises its purchase price, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When significant parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property, plant and equipment:

	Number of Years
Machinery and equipment	5 to 10
Buildings and leasehold improvements	20 and 3 or term of the lease, whichever is shorter, respectively
Office equipment, furniture and fixtures	3 to 5
Tools	3 to 5
Transportation equipment	5 to 10

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from 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. Any resulting gain or loss is recognized in profit or loss.

Construction in progress (CIP) represents properties under construction and is stated at cost, including costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of the property, plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are completed and available for operational use.

Leasehold Rights

The leasehold rights of Treasure and ZZ Stronghold are stated at cost less accumulated amortization and any impairment in value. Leasehold rights are measured on initial recognition at cost which includes purchase price and other direct costs. Subsequent to initial recognition, leasehold rights are carried at cost less any accumulated amortization and any impairment losses. The amortization of the leasehold rights is computed on a straight line basis over 25 years and 42 years for Treasure and ZZ Stronghold, respectively, which are the terms of the lease agreement.

The estimated useful lives and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the leasehold rights.

When leasehold rights are retired or disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction of a qualifying asset, which necessarily takes a substantial period of time to prepare for its intended use are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that these will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognized as expense.

Capitalization of borrowing costs is suspended during extended period in which the Group suspends active development of a qualifying asset and ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. An asset is normally ready for its intended use when the physical construction of the asset is complete even though routine administrative work might still continue.

Impairment of Nonfinancial Assets

Nonfinancial assets consisting of property, plant and equipment, leasehold rights and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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 time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

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. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over remaining useful life.

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are recognized in equity as deduction from proceeds, net of tax. Unpaid subscriptions are recognized as a reduction of subscribed capital shares.

Deficit. Deficit represents the cumulative balance of net income or loss, net of dividend declaration.

Other Equity Reserve. Other equity reserve comprises of items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. Other equity reserve of the Group pertains to remeasurement gains and losses on retirement liability and cumulative translation adjustment.

Revenue Recognition
Revenue is recognized to the extent that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The Group has concluded that it is the principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Sale of Goods. Revenue is recognized when the risk and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest Income. Income is recognized as the interest accrues taking into account the effective yield on the assets, net of final tax.

Other Income. Income from other sources is recognized when earned during the period.

Costs and Expense Recognition
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Cost of Goods Sold. Cost of goods sold is recognized as expense when the related goods are sold.

Operating Expenses. Operating expenses constitute costs of administering the business and costs incurred to sell and market the goods. These are expensed when incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest method.

Basic and Diluted Earnings (Loss) per Share
The Group presents basic and diluted earnings (loss) per share. Basic earnings (loss) per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Group and held as treasury shares. Diluted earnings (loss) per share is calculated in the same manner, adjusted for the effects of all the dilutive potential common shares.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

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

Employee Benefits

Short-term Benefits. The Group provides short-term benefits to its employees in the form of basic pay, 13th month pay, bonuses, employer's share on government contribution, and other short-term benefits.

Retirement Benefits. TKC and Treasure has unfunded, noncontributory retirement plan covering their qualified employees while ZZ Stronghold maintains a state managed social security contribution plan for the retirement benefits of its employees. Costs of retirement benefits are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and net interest expense or income in the consolidated statement of comprehensive income.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Group recognizes restructuring-related costs.

Net interest on the net retirement liability or asset is the change during the period in the net retirement liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net retirement liability or asset. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Income Taxes

Current Tax. Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided on all 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. Deferred tax assets are recognized for all deductible temporary differences, and carry forward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, excess MCIT and NOLCO 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 future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) in effect at the reporting date.

Deferred tax assets and 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.

Foreign Currency Transactions and Translation
The Group determines its own functional currency and items included in the consolidated financial statements are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Nonmonetary 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. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. This would include any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as part of the assets and liabilities of the foreign operation;

- income and expenses for each income statement are translated at exchange rates at the dates of the transactions; and

- all resulting exchange differences are recognized in other comprehensive income.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity, or between, and/or among the reporting entity and its key management personnel, directors or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Provisions and Contingencies

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Segment Reporting

Operating segments are components of the Group: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Judgment, Accounting Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgment, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgment and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date.

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 estimated amounts. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Changes in accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the change and future periods if the revision affects both current and future periods.

The following are the significant judgment, accounting estimates and assumptions made by the Group:

Determining Functional Currency. Based on management's assessment, the functional currency of the Group has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the operations of the Group.

Determining Operating Segments. Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Group's chief operating decision maker, which is defined to be the Group's BOD, in order to allocate resources to the segment and assess its performance. The Group reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

The Group has three reportable operating segments and generates revenues from two geographical segments, Philippines and China.

Classifying Leases - Group as a Lessee. The Group has entered into office property leases. The Group has determined that the risks and benefits of ownership related to the leased properties are retained by the lessor. Accordingly, the leases are accounted for as operating leases.

Rental expense amounted to ₱5.4 million, ₱5.5 million and ₱5.2 million in 2017, 2016 and 2015, respectively (see Note 23).

Assessing for Impairment Loss on Trade and Other Receivables and Due from Related Parties. The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, significant financial difficulties or bankruptcy, the length of the Group's relationship with the customer and the counterparty, the payment behavior, and known market factors. The Group identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

Receivables amounting to ₱17.7 million, ₱29.1 million and ₱1.5 million were directly written off by ZZ Stronghold in 2017, 2016 and 2015, respectively (see Note 18).

Trade and other receivables amounted to ₱265.9 million and ₱210.5 million as at December 31, 2017 and 2016, respectively (see Note 5). Due from related parties amounted to ₱40.0 million as at December 31, 2017 and 2016 (see Note 14).

Determining NRV of Inventories. The Group, in determining the NRV of inventories, considers any adjustments for obsolescence. The amount and timing of recorded expenses for any period would differ if different judgment were made or different estimates were used. An increase in allowance for inventory obsolescence and market decline would increase recorded operating expense and decrease current assets.

In 2016, Treasure recognized provision for inventory write-down amounting to ₱106.0 million. As at December 31, 2017 and 2016, inventories carried at the lower of cost and NRV amounted to ₱360.8 million and ₱380.4 million, respectively. Allowance for inventory write-down amounted to ₱149.5 million as at December 31, 2017 and 2016 (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment and Leasehold Rights. The Group estimates the useful lives of property, plant and equipment and leasehold rights based on the period over which the assets are expected to be available for use. The estimates are based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property and equipment and intangible assets are reviewed at each reporting date 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. Future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amount and timing of recording of depreciation expense for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of property, plant and equipment and leasehold rights in 2017, 2016 and 2015.

Depreciation and amortization are as follows:

	Note	2017	2016	2015
Property and equipment	9	**₱34,185,379**	₱51,866,330	₱54,172,182
Leasehold rights	10	**6,440,038**	8,703,029	8,473,684

The carrying amounts of property and equipment and leasehold rights are as follows:

	Note	2017	2016
Property and equipment	9	**₱3,404,944,583**	₱4,012,508,653
Leasehold rights	10	**230,807,985**	225,953,272

Assessing for Impairment of Nonfinancial Assets

a. 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 considered 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; or
- significant negative industry or economic trends.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In 2017, Treasure recognized provision for impairment loss on property, plant and equipment amounting to ₱683.5 million (see Note 9). As at December 31, 2017 and 2016, the carrying amount of property, plant and equipment amounted to ₱3,404.9 million and ₱4,012.5 million, respectively.

b. 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 amount. The impairment on goodwill is determined by comparing (a) the carrying amount 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. Goodwill amounted to ₱11.8 million as at December 31, 2017 and 2016. Goodwill is presented as part of "Other noncurrent assets" in the consolidated statements of financial position (see Note 11).

No impairment on goodwill was recognized in 2017, 2016 and 2015.

c. CWT and Input VAT

The carrying amounts of the CWT and input VAT are adjusted to an extent that it is probable that sufficient taxable profit and revenue subject to output VAT, respectively, will be available to allow all or part of the CWT and input VAT to be utilized. Any allowance for unrecoverable portion of CWT and input VAT is maintained at a level considered adequate to provide for potentially unrecoverable portion. The level of allowance is based on past application experience and other factors that may affect realizability.

In 2017, 2016 and 2015, no impairment losses have been recognized for the CWT and input VAT. The carrying amounts of CWT and input VAT aggregated to ₱294.6 million and ₱295.4 million as at December 31, 2017 and 2016, respectively (see Note 7).

Estimating Retirement Benefit Costs. The determination of the obligation and costs of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 20 to the consolidated financial statements and include, among others, discount rates and salary increase rates.

Retirement expense amounted to ₱1.3 million, ₱1.0 million and ₱1.0 million in 2017, 2016 and 2015, respectively. The retirement liability amounted to ₱ 7.8 million and ₱ 9.1 million as at December 31, 2017 and 2016, respectively (see Note 20).

Recognition of Deferred Tax Assets. The carrying amount of deferred tax assets at each reporting date are reviewed 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 assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenue and expenses.

The Group did not recognize deferred tax assets amounting to ₱330.6 million and ₱139.4 million as at December 31, 2017 and 2016, respectively. Management believes that it may not be able to utilize these deferred tax assets against future tax liabilities (see Note 25).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱19,596**	₱6,000,409
Cash in banks	**29,706,098**	24,185,629
Cash equivalents	**4,656,253**	875,778
	₱34,381,947	₱31,061,816

Cash in bank earns interest at prevailing bank deposit rates.

Cash equivalents pertain to short-term placements and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks and cash equivalents amounted to ₱87,916, ₱124,372 and ₱866,785 in 2017, 2016 and 2015, respectively (see Note 24).

5. Trade and Other Receivables

This account consists of:

	Note	2017	2016
Trade:			
Third parties		**₱215,058,044**	₱159,818,489
Related parties	14	**47,794,666**	47,794,666
Advances to officers and employees		**2,468,722**	2,394,198
Others		**613,760**	540,280
		₱265,935,192	₱210,547,633

Trade receivables are unsecured, noninterest-bearing and are generally on a 30 to 90-day credit term.

Advances to officers and employees are noninterest-bearing and are subject to liquidation within a year.

Long outstanding receivables amounting to ₱17.7 million, ₱29.1 million and ₱1.5 million were directly written off by ZZ Stronghold in 2017, 2016 and 2015, respectively (see Note 18).

6. Inventories

This account consists of:

	2017		2016	
	At Cost	Lower of Cost and NRV	At Cost	Lower of Cost and NRV
Raw materials and spare parts	**₱408,035,248**	**₱259,729,793**	₱434,952,677	₱286,647,222
Finished goods	**64,520,940**	**64,489,360**	44,639,785	44,608,205
Factory supplies	**33,174,271**	**33,174,271**	45,720,162	45,720,162
Scrap metals	**4,588,769**	**3,443,173**	4,588,769	3,443,173
	₱510,319,228	**₱360,836,597**	₱529,901,393	₱380,418,762

Movements in the allowance for inventory write-down are as follows:

	Note	2017	2016
Balance at beginning of year		**₱149,482,631**	₱43,502,695
Provision for inventory write-down	19	**–**	105,979,936
Balance at end of year		**₱149,482,631**	₱149,482,631

Inventories charged to operations amounted to ₱280.7 million, ₱262.0 million and ₱218.5 million in 2017, 2016 and 2015, respectively (see Note 17).

Inventories held by ZZ Stronghold amounting to ₱121.2 million and ₱111.5 million as at December 31, 2017 and 2016, respectively are pledged as collateral on loans (see Note 13).

7. CWT and Input VAT

This account consists of:

	2017	2016
Input VAT:		
Current	₱224,144,122	₱223,930,566
Deferred	1,381,178	1,841,564
CWT	69,049,815	69,616,240
	₱294,575,115	₱295,388,370

8. Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers	₱24,738,324	₱29,028,368
Prepayments	995,111	820,270
	25,733,435	29,848,638
Provision for impairment	(214,783)	–
	₱25,518,652	₱29,848,638

Advances to suppliers are advance payments for purchase of scrap and other raw materials. These advances are subsequently recognized as inventory upon delivery of materials.

In 2016, long outstanding advances to suppliers of ₱0.2 million of the Parent Company was provided with allowance for impairment (see Note 19).

9. Property, Plant and Equipment

The balances and movements of this account are as follows:

		2017						
	Note	Construction in Progress	Machinery and Equipment	Buildings and Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools	Transportation Equipment	Total
Cost								
Balances at beginning of year		₱3,688,261,796	₱746,550,041	₱274,510,829	₱15,558,351	₱3,741,737	₱10,384,683	₱4,739,007,437
Additions		–	279,894	–	210,792	–	–	490,686
Disposal		–	(3,000,000)	–	–	–	(2,255,562)	(5,255,562)
Exchange realignment		99,739,689	20,734,993	14,640,853	430,845	–	248,718	135,795,098
Balances at end of year		3,788,001,485	764,564,928	289,151,682	16,199,988	3,741,737	8,377,839	4,870,037,659
Accumulated Depreciation, Amortization and Impairment loss								
Balances at beginning of year		–	545,674,357	152,396,796	14,936,834	3,741,737	9,749,060	726,498,784
Impairment	19	683,451,047	–	–	–	–	–	683,451,047
Depreciation and amortization	22	–	21,789,387	12,038,936	169,138	–	187,918	34,185,379
Disposal		–	(3,000,000)	–	–	–	(2,215,912)	(5,215,912)
Exchange realignment		–	19,157,768	6,420,980	389,438	–	205,592	26,173,778
Balances at end of year		683,451,047	583,621,512	170,856,712	15,495,410	3,741,737	7,926,658	1,465,093,076
Carrying Amount		₱3,104,550,438	₱180,943,416	₱118,294,970	₱704,578	₱–	₱451,181	₱3,404,944,583

		2016						
	Note	Construction in Progress	Machinery and Equipment	Buildings and Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools	Transportation Equipment	Total
Cost								
Balances at beginning of year		₱3,709,917,925	₱738,542,137	₱277,423,580	₱17,828,074	₱9,730,911	₱10,434,165	₱4,763,876,792
Additions		1,350,290	8,830,372	–	230,978	–	–	10,411,640
Disposal		(3,151,649)	–	–	(26,804)	–	–	(3,178,453)
Exchange realignment		(19,854,770)	(822,468)	(2,912,751)	(2,473,897)	–	(49,482)	(26,113,368)
Balances at end of year		3,688,261,796	746,550,041	274,510,829	15,558,351	9,730,911	10,384,683	4,744,996,611
Accumulated Depreciation and Amortization								
Balances at beginning of year		–	483,382,590	165,923,852	17,132,220	9,730,911	9,611,609	685,781,182
Depreciation and amortization	22	–	39,745,557	11,704,721	233,264	–	182,788	51,866,330
Disposal		–	–	–	(25,464)	–	–	(25,464)
Exchange realignment		–	22,546,210	(25,231,777)	(2,403,186)	–	(45,337)	(5,134,090)
Balances at end of year		–	545,674,357	152,396,796	14,936,834	9,730,911	9,749,060	732,487,958
Carrying Amount		₱3,688,261,796	₱200,875,684	₱122,114,033	₱621,517	₱–	₱635,623	₱4,012,508,653

Construction in progress pertains to Treasure's and ZZ Stronghold's plant expansion projects. These projects include the construction of new beneficiating plant, two blast furnace, sintering plant, refurbishment and upgrade of billet manufacturing plant of Treasure in Iligan City and the construction of building and plant facilities for the stretch reducer mill of ZZ Stronghold in PRC. These projects, except the second blast furnace of Treasure, were almost completed and are subject to final stage of testing.

As discussed in Note 1, ZZ Stronghold has been recurring losses in previous years but was able to increase sales and generated positive results of operations in 2017. The market value of the property, plant and equipment and leasehold rights of ZZ Stronghold is higher than the recorded net carrying amount of ₱1,914.7 million (including leasehold rights discussed in Note 10) as at December 31, 2017 based on a latest independent assessment of the fair value. The fair value was determined using level 2 in the fair value hierarchy.

Completion of the construction of Treasure has been long delayed because the Company has not been able to get potential investors not only to fund the completion but to resume operations (see Note 1). Treasure has decided to review the recoverability of Treasure's assets using an independent valuation rather than value in use not only because of the delay but also considering the significant downturn in the industry because of the declining prices of steel and demand level. As at December 31, 2017, the carrying amount of the Treasure's property, plant and equipment is lower than its current depreciated replacement cost as determined by an independent appraiser based on its report dated April 10, 2018.

In this approach, an estimate is made of the current replacement cost of the replaceable property based on prevailing market prices for materials, labor, and overhead associated with its acquisition, installation and construction in place, but without provision for overtime or bonuses for labor and premiums for materials. Adjustments were made to reflect depreciation due to physical deterioration and any functional and economic obsolescence that may exist to arrive at a reasonable valuation. The fair value of the property, plant and equipment, which is also equal to its depreciated replacement cost, is based on the "highest and best use" taking into account the use of the assets that is physically possible, legally permissible and financially feasible. Consequently, a provision for impairment loss on property, plant and equipment amounting to ₱683.5 million was recognized in 2017 in the consolidated statements of comprehensive income (see Note 19). The fair value was determined using level 2 in the fair value hierarchy.

There was no capitalization of borrowing costs in 2017 because the active development of the plant was stopped.

In 2017, Treasure wrote off fully depreciated machinery and equipment amounting to ₱3.0 million. Treasure also sold a fully depreciated transportation equipment resulting to a gain on sale amounting to ₱2.4 million in 2017 (see Note 24).

Property, plant and equipment of ZZ Stronghold with carrying amount of ₱1,914.7 million and ₱114.3 million as at December 31, 2017 and 2016, respectively, were pledged to secure the loans payable of ZZ Stronghold (see Note 13).

ZZ Stronghold recorded a loss on disposal of transportation equipment amounting to ₱39,650, nil and ₱17,751 in 2017, 2016 and 2015, respectively.

Construction Commitments

The Group has several construction contracts on its plant expansion projects covering mainly the beneficiating plant, blast furnace, power plant and the liquid gas storage projects.

10. Leasehold Rights

The balances and movements of this account are as follows:

		2017		
	Note	ZZ Stronghold	Treasure	Total
Cost				
Balances at beginning of year		₱252,408,329	₱46,000,000	₱298,408,329
Exchange realignment		20,362,675	–	20,362,675
Balances at end of year		272,771,004	46,000,000	318,771,004
Accumulated Amortization				
Balances at beginning of year		50,681,724	21,773,333	72,455,057
Amortization	22	4,600,038	1,840,000	6,440,038
Exchange realignment		9,067,924	–	9,067,924
Balances at end of year		64,349,686	23,613,333	87,963,019
Carrying Amount		₱208,421,318	₱22,386,667	₱230,807,985

		2016		
	Note	ZZ Stronghold	Treasure	Total
Cost				
Balances at beginning of year		₱253,190,856	₱46,000,000	₱299,190,856
Exchange realignment		(782,527)	–	(782,527)
Balances at end of year		252,408,329	46,000,000	298,408,329
Accumulated Amortization				
Balances at beginning of year		42,104,767	19,933,333	62,038,100
Amortization	22	6,863,029	1,840,000	8,703,029
Exchange realignment		1,713,928	–	1,713,928
Balances at end of year		50,681,724	21,773,333	72,455,057
Carrying Amount		₱201,726,605	₱24,226,667	₱225,953,272

ZZ Stronghold

On December 8, 2005, ZZ Stronghold has a contractual agreement (the Agreement) with China Merchants ZhangZhou Development Zone Co. Ltd. (China Merchants) for the right to use the land located in 1M2-05 Zone I, China Merchants Development Zone for a period of 42 years. The land is where the ZZ Stronghold steel plant is located.

The leasehold rights with carrying amount of ₱208.4 million and ₱201.7 million as at December 31, 2017 and 2016, respectively, were pledged to secure the loans payable of ZZ Stronghold (see Note 13).

Treasure

Treasure (lessee) has a Memorandum of Agreement (MOA) with Global Ispat Holdings, Ltd. and Global Steelworks International, Inc. (lessors, both of whom are nonrelated parties) for the lease of a steel billet making plant located in Iligan City, Lanao del Norte, Philippines for a period of 25 years from 2006.

The MOA provides among others, that Treasure shall:

- Fully settle the claims, liens and encumbrances in the property; and
- Rehabilitate and commercially operate the steel billet making plant.

Settlements paid by Treasure amounting to ₱46.0 million were recorded as "Leasehold rights" in the consolidated statements of financial position.

11. Other Noncurrent Assets

This account consists of:

	Note	2017	2016
Advances to contractors		**₱46,651,046**	₱46,651,046
Goodwill	16	**11,803,406**	11,803,406
Refundable deposits		**1,987,105**	1,987,105
Prepaid rent		**1,458,608**	1,507,688
AFS financial asset - at cost		**500,000**	500,000
Deferred input VAT - net of current portion		**–**	1,381,178
Others		**15,282,086**	1,236,203
		77,682,251	65,066,626
Allowance for impairment on advances to contractors	19	**46,651,046**	46,651,046
		₱31,031,205	₱18,415,580

Advances to contractors pertain to funds advanced by Treasure to its contractors in relation to its plant expansion projects. These were fully provided for in 2016.

Refundable deposits pertain mainly to the Parent Company's five-year office lease contract with a third party which commenced in September 2014 (see Note 23).

Others pertain mainly to prepayments and construction bond of the Parent Company.

12. Trade and Other Payables

This account consists of:

	Note	2017	2016
Trade payables:			
Third parties		**₱807,706,679**	₱758,795,215
Related parties	14	**10,148,770**	10,148,770
Accruals for:			
DST		**21,426,349**	22,846,221
Real property tax		**14,803,232**	–
Others		**78,059,107**	23,955,865
Deposits		**–**	18,396,687
Salaries payable		**15,169,845**	9,856,199
Statutory payables		**4,118,734**	2,562,131
Others		**3,713,665**	3,895,285
		₱955,146,381	₱850,456,373

Trade and other payables are unsecured, noninterest-bearing and are normally settled throughout the year.

Accrued others include provision for contingencies to cover claim by a third party.

Deposits pertain to ZZ Stronghold's advances from customers for ordered items which were not yet delivered as at reporting date.

13. Loans Payable

This account represents loans availed by the Group from commercial banks maturing within one (1) year from the reporting date, renewable upon mutual agreement of the parties.

Details are as follows:

	2017				
	Original Currency	Amount of Loan (original currency)	Amount of Loan (in Peso)	Source of Loan	Interest Rate
TKC	PHP	337,602,442	₱337,602,442	Local bank	6.0%
Treasure	PHP	200,000,000	200,000,000	Local bank	6.0%
ZZ Stronghold	RMB	66,822,756	510,685,273	Foreign bank	7.84% to 8.4%
			₱1,048,287,715		

	2016				
	Original Currency	Amount of Loan (original currency)	Amount of Loan (in Peso)	Source of Loan	Interest Rate
TKC	PHP	337,602,442	₱337,602,442	Local bank	6.0%
Treasure	PHP	200,000,000	200,000,000	Local bank	6.0%
ZZ Stronghold	RMB	66,000,000	472,348,731	Foreign bank	7.84% to 8.4%
			₱1,009,951,173		

As at December 31, 2017 and 2016, certain assets of ZZ Stronghold were pledged as collateral to secure its loans. Leasehold rights with carrying amount of ₱208.4 million and ₱201.7 million, respectively; property, plant and equipment with a carrying amount of ₱1,914.7 million and ₱114.3 million, respectively; and inventories amounting to ₱121.2 million and ₱111.5 million were pledged as collateral of loans payable of ₱510.7 million and ₱472.3 million as at December 31, 2017 and 2016, respectively (see Notes 6, 9 and 10). There are no other covenants that the Group must comply with.

Loans payable of the Parent Company and Treasure are unsecured.

Details of interest expense follows:

	2017	2016	2015
Loans payable	**₱63,899,500**	₱57,185,057	₱71,814,666
Bills payable	–	–	80,673
	₱63,899,500	₱57,185,057	₱71,895,339

The changes in liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

	Note	Balance at beginning of year	Changes from financing cash flows	Exchange realignment	Balance at end of year
Loans payable	13	₱1,009,951,173	₱13,984,534	₱24,352,008	₱1,048,287,715
Due to related parties	14	3,522,827,405	37,477,828	–	3,560,305,233
		₱4,532,778,578	₱51,462,362	₱24,352,008	₱4,608,592,948

14. Related Party Transactions

The Group has transactions with its related parties in the ordinary course of business as follows:

Trade and Other Receivables

Trade and other receivables are from sale of inventories and are unsecured, noninterest-bearing and are generally on a 30 to 90-day credit (see Note 5). No impairment was recognized in 2017, 2016 and 2015.

Transactions and outstanding balance arising from sale of inventories as follows:

	Amount of Transactions		Outstanding Balance	
	2017	2016	**2017**	2016
Under common control:				
Goodyear Steel Pipe Corporation (Goodyear)	**₱–**	₱–	**₱43,639,292**	₱43,639,292
British Wire Industries, Inc. (British)	**–**	–	**4,155,374**	4,155,374
			₱47,794,666	₱47,794,666

Trade and Other Payables

Trade and other payables are from inventory purchases and availment of manufacturing services. These are unsecured, noninterest-bearing and payable in cash (see Note 12). These are summarized as follows:

	Amount of Transactions		Outstanding Balance	
	2017	2016	**2017**	2016
Under common control:				
Goodyear	**₱–**	₱–	**₱5,013,082**	₱5,013,082
British	**–**	–	**4,385,346**	4,385,346
Others	**–**	–	**750,342**	750,342
			₱10,148,770	₱10,148,770

Due from Related Parties

Due from related parties are unsecured, noninterest-bearing advances for working capital requirements. These are normally settled in cash throughout the year. No impairment was recognized in 2017, 2016 and 2015.

Summarized below are the outstanding accounts arising from these transactions.

	Amount of Transactions		Outstanding Balance	
	2017	2016	**2017**	2016
Stockholder	**₱–**	₱–	**₱11,838,673**	₱11,838,673
Under common control:				
Goodyear	**–**	–	**24,758,753**	24,758,753
Stronghold Steel Corporation	**–**	–	**2,118,850**	2,118,850
British	**–**	–	**1,059,802**	1,059,802
Others	**–**	9,399	**200,457**	200,457
			₱39,976,535	₱39,976,535

Due to Related Parties

Due to related parties are unsecured, noninterest-bearing advances for working capital requirements. These are payable on demand and to be settled in cash.

Summarized below are the outstanding accounts arising from these transactions.

	Amount of Transactions		Outstanding Balance	
	2017	2016	**2017**	2016
Stockholders	**₱24,677,259**	₱150,000	**₱2,905,917,700**	₱2,894,536,329
Ultimate Parent -				
JTKC Equities, Inc.	**–**	–	**437,691,362**	437,691,362
Under common control:				
Quad Quality Management, Ltd.	**–**	–	**93,609,804**	93,609,804
Oakridge Properties, Inc.	**23,174,155**	22,536,895	**79,030,991**	55,856,836
I-Remit, Inc.	**–**	–	**16,900,000**	16,900,000
JTKC Land, Inc.	**1,500,000**	1,500,000	**3,000,000**	1,500,000
Stronghold Steel Corporation	**–**	–	**1,000,000**	1,000,000
Goodyear	**–**	–	**1,000,000**	1,000,000
Others	**4,000,000**	2,703,710	**22,155,376**	20,733,074
			₱3,560,305,233	₱3,522,827,405

Summarized below are the receivables from related parties which are eliminated during the consolidation.

	2017	2016
Subsidiaries:		
Treasure:		
Due from related parties	**₱1,018,434,744**	₱1,022,374,927
Trade receivables	**2,176,670**	2,176,670
Billions -		
Due from related parties	**301,233,653**	322,802,277
Campanilla -		
Due from related parties	**751,146**	731,152
	₱1,322,596,213	₱1,348,085,026

Compensation of key management personnel of the Group follows:

	2017	2016	2015
Short-term benefits	**₱8,004,318**	₱7,809,484	₱8,124,471
Post-employment benefits	**140,328**	411,561	134,262
	₱8,144,646	₱8,221,045	₱8,258,733

15. **Equity**

Capital Stock
Details of the common stock as at December 31, 2017 and 2016 follows:

	Shares	Amount
Authorized - ₱1 Par Value	1,000,000,000	₱1,000,000,000
Issued and outstanding	940,000,000	₱940,000,000

The details and movements of the shares listed with PSE follow:

Date of SEC Approval	Type of Issuance	No. of Shares Issued	Issue/Offer Price
November 28, 2006	Acquisition by SEI	25,000,000	₱1.00
April 13, 2007	Subscription of additional shares by SEI	240,000,000	₱1.00
April 16, 2007	Subscription of additional shares by SEI	440,000,000	₱1.00
November 23, 2007	Follow-On-Offering (FOO)	235,000,000	₱9.68
		940,000,000	

On June 27, 2014, the BOD and stockholders representing two-thirds (2/3) of its outstanding capital stock approved to the following changes:

a. Increase in the authorized capital stock from ₱1,000,000,000 to ₱3,000,000,000, equivalent to 3,000,000,000 common shares at ₱1.0 par value a share

b. Capital restructuring plan, which involves a rights offer based on the ratio of 1.38 rights share for every common share presently held. The offer price is at ₱2.0 per rights share with bonus warrants to be given at the ratio of 1 warrant for every 3 rights shares. Based on these ratios, 1,300,000,000 new shares will be issued.

As at December 31, 2017, the application to the SEC for the increase in authorized capital stock and capital restructuring is still pending.

16. Adjustments to Equity

The adjustments to equity were results of the following:

TKC's Acquisition of Billions. The acquisition of Billions in 2007 resulted to a goodwill of ₱11.8 million and an adjustment to equity of ₱8.1 million. The goodwill is presented in Note 11 as part of "Other noncurrent assets" account in the consolidated statements of financial position.

TKC's Additional Investment in Treasure. The increase in ownership in Treasure from 96% to 98% in 2011 resulted to an equity adjustment of ₱6.6 million to reflect a change in ownership of non-controlling interest.

TKC's Increase in Investment of ZZ Stronghold. The increase in ownership in ZZ Stronghold from 90% to 91% in 2013 resulted to an equity adjustment of ₱31.7 million to reflect a change in ownership of non-controlling interest.

17. Costs of Goods Sold

This account consists of:

	Note	2017	2016	2015
Direct materials	6	**₱280,661,887**	₱261,980,403	₱218,528,285
Manufacturing supplies		**37,787,997**	4,015,821	3,493,376
Depreciation and amortization	22	**15,908,125**	34,064,086	34,116,763
Salaries, wages and other employee benefits	21	**5,653,597**	6,188,694	8,578,137
Indirect labor		**47,421**	4,324,471	6,885,584
Utilities and rental		**17,457**	3,552,416	5,170,735
Others		**1,164,146**	14,780,516	21,736,896
		₱341,240,630	₱328,906,407	₱298,509,776

18. Operating Expenses

This account consists of:

	Note	2017	2016	2015
Salaries, wages and other employee benefits	21	₱45,308,745	₱51,900,698	₱48,633,834
Depreciation and amortization	22	24,100,074	22,173,976	27,077,852
Taxes and licenses		28,239,806	13,787,715	12,357,267
Professional fees		18,845,941	2,141,721	1,090,595
Receivable write-off	5	17,701,158	29,142,842	1,474,653
Freight and handling		14,056,624	8,580,982	12,615,661
Utilities and rental		10,589,769	7,730,126	8,522,133
Repairs and maintenance		8,128,667	11,870,839	11,528,371
Outside services		7,129,312	7,131,448	7,481,617
Representation		1,707,567	2,210,315	6,700,689
Travel and transportation		2,052,428	2,381,522	2,838,196
Office supplies		230,354	190,405	316,367
Commission		7,016	4,890	124,707
Insurance		–	54,346	93,258
Provision for contingencies		–	–	325,129
Inventories written-off		–	–	7,674,054
Others		5,759,874	9,512,742	7,626,726
		₱183,857,335	₱168,814,567	₱156,481,109

Others mainly include ZZ Stronghold's registration, bank charges, postages among others.

19. Provision for Impairment Loss

This account consists of provision for impairment loss on:

	Note	2017	2016	2015
Property and equipment	9	₱683,451,047	₱–	₱–
Advances to suppliers	8	214,783	–	–
Inventories	6	–	105,979,936	–
Advances to contractors	11	–	46,651,046	–
		₱683,665,830	₱152,630,982	₱–

20. Retirement Benefits

As at December 31, 2017 and 2016, ZZ Stronghold maintains a state managed social security contribution plan for the retirement benefits of its employees. Parent Company and Treasure has an unfunded, noncontributory defined benefit retirement plan covering all its regular, full time employees.

An independent actuary of TKC and TSC conducted an actuarial valuation of the retirement liability for the years ended December 31, 2017 and December 31, 2016, respectively, using the projected unit credit method.

The components of retirement expense (income) recognized as part of "Salaries, wages and other employee benefits" under "Operating expenses" account in the consolidated statements of comprehensive income are as follows (see Note 21):

	2017	2016	2015
Current service cost	**₱851,887**	₱558,562	₱736,079
Interest cost	**429,666**	418,906	36,479
Curtailment loss	**–**	–	251,925
	₱1,281,553	₱977,468	₱1,024,483

Changes in the present value of retirement liability (PVRL) are as follows:

	2017	2016
Balance at beginning of year	**₱9,107,262**	₱8,874,752
Current service cost	**851,887**	558,562
Interest cost	**429,666**	418,906
Benefits paid	**–**	(285,000)
Remeasurement loss:		
Experience adjustments	**(1,817,612)**	(423,977)
Change in assumptions	**(807,591)**	(35,981)
Balance at end of year	**₱7,763,612**	₱9,107,262

Movements in the retirement liability are as follows:

	2017	2016
Balance at beginning of the year	**₱9,107,262**	₱8,874,752
Retirement expense (income) during the year	**1,281,553**	977,468
Remeasurement gain recognized in other comprehensive income	**(2,625,203)**	(459,958)
Benefits paid	**–**	(285,000)
Balance at end of year	**₱7,763,612**	₱9,107,262

Cumulative amount of remeasurement (loss) gain recognized to OCI are as follows:

	2017	2016	2015
Balance at beginning of year	**(₱326,385)**	(₱648,356)	(₱648,356)
Remeasurement gain, net of deferred tax	**2,625,203**	321,971	–
Balance at end of year	**₱2,298,818**	(₱326,385)	(₱648,356)

The principal actuarial assumptions used to determine retirement benefit for 2017 and 2016 are as follows:

	2017		2016	
	Treasure	**TKC**	Treasure	TKC
Discount rate	5.71%	4.38%	4.86%	4.94%
Salary increase rate	5.00%	2.00%	5.00%	2.00%

Sensitivity analysis on defined benefit liability are as follows:

	Basis Points	2017	2016
Discount rate	+1.00%	(₱7,602,977)	(₱6,764,525)
	-1.00%	7,948,208	6,825,157
Salary increase rate	+1.00%	7,983,254	6,740,475
	-1.00%	(7,564,538)	(6,856,548)

The sensitivity analysis above have been determined based on the method that extrapolates the impact of retirement liability as a result of reasonable changes in key assumptions occurring at end of the reporting period.

As at December 31, 2017 and 2016, maturity analysis of undiscounted benefit payments are as follows:

Plan Year	2017	2016
Less than one year	₱6,180,670	₱3,182,832
More than one to five years	927,058	5,454,958
More than five to 10 years	729,987	2,055,980
More than 10 to 15 years	2,529,637	6,014,256
More than 15 to 20 years	519,806	4,600,389
More than 20 years	2,507,526	11,076,456
	₱13,394,684	₱32,384,871

As at December 31, 2017, the average duration of retirement liability at the end of the reporting period is 13 years and 10.50 years for the Parent Company and Treasure, respectively.

21. Salaries, Wages and Other Employee Benefits

This account consists of:

	Note	2017	2016	2015
Salaries and wages		₱49,608,789	₱52,435,629	₱50,485,446
Other employee benefits		72,000	4,676,295	5,702,042
Retirement expense	20	1,281,553	977,468	1,024,483
		₱50,962,342	₱58,089,392	₱57,211,971

Salaries, wages and other employee benefits are classified as follows:

	Note	2017	2016	2015
Costs of goods sold	17	₱5,653,597	₱6,188,694	₱8,578,137
Operating expenses	18	45,308,745	51,900,698	48,633,834
		₱50,962,342	₱58,089,392	₱57,211,971

22. Depreciation and Amortization

Details of depreciation and amortization follows:

	Note	2017	2016	2015
Property, plant and equipment	9	**₱34,185,379**	₱51,866,330	₱54,172,182
Leasehold rights	10	**6,440,038**	8,703,029	8,473,684
		₱40,625,417	₱60,569,359	₱62,645,866

Depreciation and amortization are distributed as follows:

	Note	2017	2016	2015
Costs of goods sold	17	**₱15,908,125**	₱34,064,086	₱34,116,763
Operating expenses	18	**24,100,074**	22,173,976	27,077,852
Finished goods inventories		**617,218**	4,331,297	1,451,251
		₱40,625,417	₱60,569,359	₱62,645,866

23. Leases

The Parent Company leases its office space from a third party. The lease has a term of five (5) years, which commenced in September 2014 and will end in September 2019. The lease obligation is subject to an annual escalation of 3% beginning on the third year of the lease term.

Prior to this, the Parent Company entered into a lease agreement with a term of three (3) years, which commenced in March 2012 and which ended in March 2015. The lease obligation was subject to an annual escalation of 2% in the second year and 5% in the third year.

Rental expense included in the "Utilities and rental" under "Operating expenses" account amounted to ₱5.4 million, ₱5.5 million and ₱5.2 million in 2017, 2016 and 2015, respectively.

Future minimum lease payments under noncancellable operating leases as at December 31, 2017 are as follows:

Within one year	₱5,352,606
After one year but not more than five years	4,237,480
	₱9,590,086

24. Other Income - Net

This account consists of:

	Note	2017	2016	2015
Gain (loss) on sale of raw materials		₱19,658,274	(₱3,355,054)	₱–
Foreign exchange gain (loss)		12,654,988	(22,235,725)	6,142,279
Rental income		7,395,328	8,160,798	7,819,593
Gain (loss) on sale of transportation equipment	9	2,406,779	–	(17,751)
Interest income	4	87,916	124,372	866,785
Administrative fee		–	13,602,586	15,262,711
Wharfage income		–	19,000,000	16,000,000
Reversal of inventory write-down		–	–	131,338
Others		–	1,162,796	2,662,222
		₱42,203,285	₱16,459,773	₱48,867,177

Wharfage income pertains to the lease of Treasure's wharf to a third party.

Administrative fee refers to the consideration received from third parties in return for the assignment of its power allocation from NAPOCOR Iligan City.

25. Income Tax

The components of provision for income tax as reported in the consolidated statements of comprehensive income are as follows:

	2017	2016	2015
Reported in Profit or Loss			
Current tax expense - MCIT	₱603,793	₱661,657	₱654,443
Deferred tax expense -			
Prepaid rent	31,838	–	–
Remeasurement gain on retirement liability	(137,987)	–	–
Impairment loss on property, plant and equipment	(6,766,795)		
Unrealized foreign exchange gain	195	–	–
	(₱6,268,956)	₱661,657	₱654,443

	2017	2016	2015
Reported in OCI			
Deferred tax expense on remeasurement gain on retirement liability	₱–	₱137,987	₱–

The Parent Company is subject to income taxes under the Philippine tax laws.

Treasure is registered with the Board of Investments (BOI) for its Modernization of Steel Billets

Production Plant and for being a New Producer of Pig Iron and Beneficiated Iron Ore on September 14, 2007 and May 12, 2008, respectively. As a registered enterprise, Treasure is entitled to tax incentives from July 2012, which among others, include Income Tax Holiday (ITH) for a period of three years for Modernization of Steel Billets Production Plant and six years for being a New Producer of Pig Iron and Beneficiated Iron Ore. The ITH incentive is limited only to the revenues generated from the new activities registered.

On February 20, 2015, the BOI issued a Certification to Treasure pursuant to the Guidelines in the issuance of BOI Certification per Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Good, Properties and Services made by VAT-registered Suppliers to BOI-registered Manufacturers-Exporters with 100% Export Sales" dated February 2, 2000 and would cover Treasure's production of Nickel Pig Iron only.

No tax benefit was claimed by Treasure from these incentives in 2017, 2016 and 2015 because there were no revenue derived yet from the registered activities.

In 2017, 2016 and 2015, Billions had no Enterprise Income Tax because it has no taxable income in those years. Under the PRC's Law on Enterprise Income Tax enacted on March 16, 2007, ZZ Stronghold is subject to a tax rate of 25% beginning January 1, 2008. However, ZZ Stronghold was granted by the government of PRC tax exemption in 2008 and 2009 and a 50% discount on income tax starting 2010 to 2012. In 2017, 2016 and 2015, ZZ Stronghold is in a net taxable loss position.

Campanilla has no current income tax in 2017, 2016 and 2015 due to its taxable loss position.

The Group did not recognize the following deferred tax assets of the Parent Company, Treasure and Campanilla as at December 31, 2017 and 2016 because management has assessed that the Group may not have sufficient future taxable profit against which the deferred tax assets can be utilized.

	2017	2016
Allowance for impairment loss on property, plant and equipment	**₱198,268,519**	₱–
NOLCO	**69,173,802**	75,574,364
Allowance for inventory write-down	**44,844,789**	44,844,789
Allowance for impairment losses on advances to contractors and suppliers	**14,059,749**	13,995,314
Retirement liability	**2,329,084**	2,870,166
Excess of MCIT over RCIT	**1,919,893**	2,084,534
Accrued rental	**–**	21,419
Unrealized foreign exchange loss	**–**	744
	₱330,595,836	₱139,391,330

As at December 31, 2017 and 2016, Billions and ZZ Stronghold have no taxable and deductible temporary differences arising from its operations.

The Group's deferred tax liabilities pertain to the following:

	2017	2016
Capitalized borrowing cost	**₱15,195,950**	₱21,962,745
Prepaid rent	**31,838**	–
Unrealized foreign exchange gain	**195**	–
Remeasurement gain on retirement liability	**–**	137,987
	₱15,227,983	₱22,100,732

Details of the Parent Company, Treasure and Campanilla's NOLCO are as follows:

Parent Company

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2017	₱–	₱32,427,822	₱–	₱32,427,822	2020
2016	34,393,462	–	–	34,393,462	2019
2015	46,912,547	–	–	46,912,547	2018
2014	47,524,670	–	47,524,670	–	2017
	₱128,830,679	₱32,427,822	₱47,524,670	₱113,733,831	

Treasure

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2017	₱–	₱56,811,135	₱–	₱56,811,135	2020
2016	23,727,697	–	–	23,727,697	2019
2015	32,408,687	–	–	32,408,687	2018
2014	63,658,431	–	63,658,431	–	2017
	₱119,794,815	₱56,811,135	₱63,658,431	₱112,947,519	

Campanilla

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2017	₱–	₱608,936	₱–	₱608,936	2022
2016	47,095	–	–	47,095	2021
2015	455,957	–	–	455,957	2020
2014	2,731,585	–	–	2,731,585	2019
2013	54,416	–	–	54,416	2018
	₱3,289,053	₱608,936	₱–	₱3,897,989	

Details of the Parent Company's MCIT follow:

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2017	₱–	₱155,748	₱–	₱155,748	2020
2016	9,605	–	–	9,605	2019
2014	103,820	–	103,820	–	2017
	₱113,425	₱155,748	₱103,820	₱165,353	

Details of the Treasure's MCIT follow:

Year Incurred	Balance at Beginning of Year	Incurred	Expired	Balance at End of Year	Year of Expiration
2017	₱–	₱448,045	₱–	₱448,045	2020
2016	652,052	–	–	652,052	2019
2015	654,443	–	–	654,443	2018
2014	664,614	–	664,614	–	2017
	₱1,971,109	₱448,045	₱664,614	₱1,754,540	

The reconciliation between the income tax benefit (expense) based on statutory tax rate and effective tax rate on loss before income tax follows:

	2017	2016	2015
At statutory tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Expired NOLCO and MCIT	(3.94)	(30.85)	(157.22)
Change in unrecognized deferred tax assets	(22.33)	15.55	131.88
Nondeductible expense	(2.92)	(14.54)	(5.37)
Remeasurement gain on retirement liability	(0.09)	–	–
Interest income subjected to final tax	0.01	0.01	0.01
At effective tax rate	(0.72%)	(0.16%)	(0.70%)

26. Contingencies

The Group is either a defendant or plaintiff in several litigations, claims, and disputes which are normal to its business. Management believes that the ultimate liability, if any, with respect to such litigations, claims and disputes will not materially affect the financial position and results of operation of the Group.

27. Basic Loss Per Share

Basic loss per share is computed as follows:

	2017	2016	2015
Net loss attributable to equity holders of the Parent Company (a)	₱838,241,638	₱397,238,827	₱96,560,406
Weighted average number of shares outstanding (b)	940,000,000	940,000,000	940,000,000
Loss per share (a/b)	₱0.89	₱0.42	₱0.10

As at December 31, 2017 and 2016, the Group has no potential dilutive common shares.

28. Segment Information

For management purposes, the Group is organized into three operating segments located in the Philippines and China. Management monitors the operating results of its operating segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating results in the consolidated financial statements.

The Group's reportable segments follows:

Parent Company - an operating and holding company located in the Philippines engaged in the sale of steel products.

Treasure - engaged in the manufacturing of billets. The plant facility is located in the Iligan City, Lanao del Norte, Philippines. As disclosed in Note 1, Treasure has suspended its operations since 2013.

ZZ Stronghold - engaged in the manufacturing and distribution of steel pipes products sold in China and other export markets. The plant facility is located in Xiamen, China.

Included in the revenues generated by the Group are revenues amounting to ₱30.2 million arising from sales to the Group's largest customer. No other single customer constitutes to 10.00% or more of the Group's total revenues.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The following table presents the financial information in respect of the Group's operating segments:

	2017			
	Philippines		China	
	TKC	Treasure	ZZ Stronghold	Total
Results of operations:				
Revenue	₱351,491	₱–	₱363,237,852	₱363,589,343
Cost of goods sold	607,170	–	340,633,460	341,240,630
Gross loss	(255,679)	–	22,604,392	22,348,713
Operating expenses	(239,859,349)	(66,320,250)	(97,303,780)	(403,483,379)
Interest expense	(21,049,721)	(13,982,247)	(28,867,532)	(63,899,500)
Impairment loss	(214,783)	(683,451,047)	–	(683,665,830)
Interest income	4,939,631	8,969	77,518	5,026,118
Other income (loss)	(26,507,711)	22,105,352	19,911,668	15,509,309
Loss before income tax	(282,947,612)	(741,639,223)	(83,577,734)	(1,108,164,569)
Income tax benefit	1,876,230	6,318,555	–	8,194,785
Segment net loss	(₱281,071,382)	(₱735,320,668)	(₱83,577,734)	(₱1,099,969,784)
Segment assets	₱3,190,216,599	₱2,248,815,485	₱2,303,196,802	₱7,742,228,886
Segment liabilities	₱954,010,068	₱4,776,093,206	₱3,169,742,965	₱8,899,846,239
Capital expenditures	₱–	₱47,500	₱443,186	₱490,686
Depreciation and amortization	₱992,014	₱15,667,060	₱23,966,343	₱40,625,417

	2016			
	Philippines		China	
	TKC	Treasure	ZZ Stronghold	Total
Results of operations:				
Revenue	₱428,933	₱–	₱271,952,345	₱272,381,278
Cost of goods sold	528,799	–	328,377,608	328,906,407
Gross loss	(99,866)	–	(56,425,263)	(56,525,129)
Operating expenses	(22,698,779)	(40,547,077)	(105,521,617)	(168,767,473)
Impairment loss	–	(152,630,982)	–	(152,630,982)
Interest expense	(12,898,342)	(13,593,446)	(30,693,269)	(57,185,057)
Interest income	3,034	4,716	116,570	124,320
Other income	580,140	29,245,051	(13,489,790)	16,335,401
Loss before income tax	(35,113,813)	(177,521,738)	(206,013,369)	(418,648,920)
Income tax expense	(9,605)	(652,052)	–	(661,657)
Segment net loss	(₱35,123,418)	(₱178,173,790)	(₱206,013,369)	(₱419,310,577)
Segment assets	₱3,437,322,651	₱2,971,700,569	₱2,135,006,299	₱8,544,029,519
Segment liabilities	₱920,044,738	₱4,766,282,825	₱3,038,069,671	₱8,724,397,234
Capital expenditures	₱–	₱–	₱8,645,821	₱8,645,821
Depreciation and amortization	₱997,909	₱20,822,990	₱353,077	₱22,173,976

	2015			
	Philippines		China	
	TKC	Treasure	ZZ Stronghold	Total
Results of operations:				
Revenue	₱5,758,877	₱–	₱374,790,872	₱380,549,749
Cost of goods sold	6,643,931	–	291,865,845	298,509,776
Gross profit (loss)	(885,054)	–	82,925,027	82,039,973
Operating expenses	(27,196,001)	(60,678,843)	(68,153,059)	(156,027,903)
Interest expense	(20,963,743)	(13,838,006)	(37,093,590)	(71,895,339)
Interest income	74,225	8,315	782,758	865,298
Other income	131,338	32,722,131	15,164,674	48,018,143
Loss before income tax	(48,839,235)	(41,786,403)	(6,374,190)	(96,999,828)
Income tax expense	–	(654,443)	–	654,443
Segment net loss	(₱48,839,235)	(₱42,440,846)	(₱6,374,190)	(₱97,654,271)
Segment assets	₱1,346,425,536	₱3,153,139,887	₱2,381,387,665	₱6,880,953,088
Segment liabilities	₱904,036,684	₱4,769,548,353	₱2,966,408,289	₱8,639,993,326
Capital expenditures	₱295,322	₱–	₱10,834,555	₱11,129,877
Depreciation and amortization	₱1,440,113	₱25,443,918	₱16,525,939	₱43,409,970

The following are the reconciliations of the segment information to reported amounts in the consolidated statements of financial position and consolidated statements of comprehensive income:

Reconciliation of Assets

	2017	2016
Assets of all reportable segments	₱7,742,228,886	₱8,544,029,519
Intercompany eliminations	(3,054,363,327)	(3,300,052,470)
Assets of nonreportable segment	142,252	142,210
Group assets	₱4,688,007,811	₱5,244,119,259

Reconciliation of Liabilities

	2017	2016
Liabilities of all reportable segments	₱8,899,846,239	₱8,724,397,234
Intercompany eliminations	(3,315,635,671)	(3,311,860,709)
Liabilities of nonreportable segment	2,520,356	1,906,420
Group liabilities	₱5,586,730,924	₱5,414,442,945

Reconciliation of Loss

	2017	2016	2015
Net loss of all reportable segments	₱1,099,969,784	₱419,310,577	₱97,654,271
Intercompany eliminations	(239,981,967)	–	–
Net loss of nonreportable segment	613,894	47,042	469,470
Group net loss	₱860,601,711	₱419,357,619	₱98,123,741

The following information relate to geographical segments:

Revenues from External Customers

	2017	2016	2015
Philippines	₱351,491	₱428,933	₱5,758,877
China	363,237,852	271,952,345	374,790,872
	₱363,589,343	₱272,381,278	₱380,549,749

The revenues are based on revenues generated from the respective operations in the Philippines and China. Revenues are derived mainly from sale of steel products to external customers.

Noncurrent Assets

	2017	2016
Philippines:		
Property, plant and equipment	₱1,698,636,839	₱2,396,859,460
Leasehold rights	22,386,667	24,226,667
Others	15,990,694	2,888,866
	1,737,014,200	2,423,974,993
China:		
Property, plant and equipment	1,706,307,744	1,615,649,193
Leasehold rights	208,421,318	201,726,605
	1,914,729,062	1,817,375,798
	₱3,651,743,262	₱4,241,350,791

The financial information presented above is consistent with the Group's consolidated financial statements.

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

The Group's principal financial instruments consist of cash and cash equivalents, trade and other receivables, refundable deposits, due from/ to related parties, trade and other payables (excluding statutory liabilities) and loans payable.

The main risks arising from financial instruments are market risks, credit risk and liquidity risk. The BOD reviews and approves the policies for managing each of these risks and they are summarized as follows:

Market Risks
The Group is exposed to market risks, primarily those related to foreign currency and interest rate risks. Management actively monitors these exposures, as follows:

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.

Currently, the Group's foreign currency exposure covers operations in PRC. Any fluctuation in the exchange rate between the PHP and the RMB will impact the amount of its investment and related accounts.

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 Group's financial monetary assets denominated in US dollar (USD) include cash in banks which comprised only 0.11% and 0.04% of the total financial monetary assets as at December 31, 2017 and 2016, respectively. Accordingly, exposure of the Group to USD foreign currency risk is minimal.

The following table shows the Group's RMB-denominated monetary financial assets and liabilities and their Philippine Peso equivalent:

	2017	
	PHP	**RMB**
Financial Assets:		
Cash and cash equivalents	**27,491,856**	**3,597,287**
Trade and other receivables	**203,726,188**	**26,657,407**
Total financial assets	**231,218,044**	**30,254,694**
Financial Liabilities:		
Trade and other payables	**371,555,307**	**48,617,712**
Loans payable	**510,685,273**	**66,822,756**
Total financial liabilities	**882,240,580**	**115,440,468**
Net financial liabilities	**(651,022,536)**	**(85,185,774)**

	2016	
	PHP	RMB
Financial Assets:		
Cash and cash equivalents	23,973,780	3,349,470
Trade and other receivables	147,378,379	20,618,714
Total financial assets	171,352,159	23,968,184
Financial Liabilities:		
Trade and other payables	269,103,932	37,648,514
Loans payable	472,348,731	66,000,000
Total financial liabilities	741,452,663	103,648,514
Net financial liabilities	(570,100,504)	(79,680,330)

For purposes of restating the outstanding balances of the Group's foreign currency-denominated financial assets and liabilities as at December 31, 2017 and 2016, the exchange rate applied was ₱7.64 and ₱7.16 per RMB, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax for the years ended December 31, 2017 and 2016 (due to changes in the fair value of financial assets). There is no other impact on the Group's equity other than those already affecting profit or loss.

	Increase/Decrease in Exchange Rate	Effect on Loss before Income Tax
December 31, 2017	**+1.21**	**(₱103,074,787)**
	-1.21	**103,074,787**
December 31, 2016	+0.06	(₱4,780,820)
	-0.06	4,780,820

Interest Rate Risk. The Group's exposure to interest rate risk arises from unfavorable changes in interest rates related primarily to outstanding debt obligations. As at December 31, 2017 and 2016, there are no floating rate financial assets and financial liabilities. Thus, the Group has minimal exposure to interest rate risk since its financial assets and financial liabilities have fixed interest rates and are usually short-term.

The table below shows the maturity profile of the Group's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted payments:

	2017					
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Other financial liabilities at amortized cost:						
Trade and other payables*	₱914,798,066	₱–	₱–	₱–	₱–	₱914,798,066
Loans payable**	–	–	–	1,111,211,849	–	1,111,211,849
Due to related parties	3,560,305,233	–	–	–	–	3,560,305,233
	₱4,475,103,299	₱–	₱–	₱1,111,211,849	₱–	₱5,586,315,148

**Excluding nonfinancial liabilities.*
***Including future interest payments.*

	2016					
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Other financial liabilities at amortized cost:						
Trade and other payables*	₱825,048,021	₱–	₱–	₱–	₱–	₱825,048,021
Loans payable**	–	–	–	–	1,070,548,243	1,070,548,243
Due to related parties	3,522,827,405	–	–	–	–	3,522,827,405
	₱4,347,875,426	₱–	₱–	₱–	₱1,070,548,243	₱5,418,423,669

**Excluding nonfinancial liabilities.*
***Including future interest payments.*

Fair Value Measurement

The following table presents the fair values of the financial assets and liabilities of the Group with carrying amounts that differ from their fair values:

		Fair Value		
	Carrying Amount	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Loans and receivables:				
Refundable deposits				
2017	₱1,260,000	₱–	₱1,183,035	₱–
Loans and receivables:				
Refundable deposits				
2016	₱1,260,000	₱–	₱1,135,789	₱–

Refundable Deposits. The fair value of refundable deposit using level 2 was determined as the sum of all future cash flows, discounted using the prevailing market rates of interest for instruments with similar maturities. The discount rates used are 3.8% and 3.5% in 2017 and 2016, respectively.

The carrying amounts of the following financial assets and liabilities of the Group approximate their fair values as at December 31, 2017 and 2016 due to the short-term nature of these transactions:

	2017	2016
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	₱34,381,947	₱31,061,816
Trade and other receivables*	263,466,470	208,153,435
Due from related parties	39,976,535	39,976,535
AFS financial assets	500,000	500,000
	₱338,324,952	₱279,691,786

	2017	2016
Financial Liabilities		
Other financial liabilities at amortized cost:		
Trade and other payables**	**₱914,798,066**	₱825,048,021
Due to related parties	**3,560,305,233**	3,522,827,405
Loans payable	**1,048,287,715**	1,009,951,173
	₱5,523,391,014	₱5,357,826,599

**Excluding nonfinancial receivables.*
***Excluding nonfinancial liabilities.*

Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Trade and Other Payables, Loans Payable, and Due to Related Parties. Due to the short-term nature of transactions, the fair values of these financial assets and liabilities approximate their carrying amounts at the reporting date.

AFS Financial Asset. The fair value of the unquoted shares of stock cannot be determined reliably and, therefore, is stated at cost less accumulated impairment losses, if any

Capital Management Policy
The primary objective of the Group's capital management is to ensure that it maintains a strong and healthy financial position to support its current business operations and maximize shareholder value.

The Group's considers its capital stock amounting to ₱940,000,000 as at December 31, 2017 and 2016, respectively, as capital employed.

The Group's manages its capital structure and makes adjustments to it, when there are changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust its borrowings or raise capital. No changes were made in the objectives, policies or processes in 2017 and 2016.

The Group is committed to maintain adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities.

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

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors
TKC Metals Corporation
Unit B1-A/C, 2nd Floor
Building B, Karrivin Plaza
2316 Chino Roces Avenue Extension
Makati City

We have audited the accompanying consolidated financial statements of TKC Metals Corporation (the Company) and Subsidiaries as at and for the year ended December 31, 2017, on which we have rendered our report dated May 11, 2018.

In compliance with the Securities Regulation Code Rule 68, as amended, we are stating that the Company has twenty-nine (29) stockholders owning one hundred (100) or more shares each.

REYES TACANDONG & CO.

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 1021-AR-2 Group A
Valid until March 27, 2020
BIR Accreditation No. 08-005144-005-2017
Valid until January 13, 2020
PTR No. 6607954
Issued January 3, 2018, Makati City

May 11, 2018
Makati City, Metro Manila

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
TKC Metals Corporation
Unit B1-A/C, 2nd Floor
Building B, Karrivin Plaza
2316 Chino Roces Avenue Extension
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of TKC Metals Corporation (the Parent Company) and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 and have issued our report thereon dated May 11, 2018. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules are the responsibility of the Group's management. These supplementary schedules include the following:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Financial Soundness Indicators
- Conglomerate Map
- Adoption of Effective Accounting Standards and Interpretations
- Supplementary Schedules as Required by Part II of SRC Rule 68, as Amended

These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and are not part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

REYES TACANDONG & CO.

Emmanuel V. Clarino

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 1021-AR-2 Group A
Valid until March 27, 2020
BIR Accreditation No. 08-005144-005-2017
Valid until January 13, 2020
PTR No. 6607954
Issued January 3, 2018, Makati City

May 11, 2018
Makati City, Metro Manila

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ADOPTION OF EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2017

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRS Practice Statement Management Commentary			✓

Philippine Financial Reporting Standards (PFRS)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Transition			✓
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments	✓		
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1 (Revised): Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1 (Revised): Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19 (Revised): Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Related Party Disclosures - Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Investment Property – Clarifying the Interrelationship between PFRS 3, Business Combination and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2017

Below is a schedule showing financial soundness indicators of the Group in the years 2017, 2016 and 2015.

	2017	2016	2015
CURRENT/LIQUIDITY RATIO			
Current assets	₱1,021,224,038	₱987,241,754	₱1,309,131,494
Current liabilities	5,563,739,329	5,383,234,951	5,421,533,235
Current Ratio	0.18	0.18	0.24
SOLVENCY RATIO			
Net loss before depreciation and amortization	(₱826,743,089)	(₱363,119,557)	(₱36,929,126)
Total liabilities	5,586,730,924	5,414,442,945	5,452,370,732
Solvency Ratio	(0.15)	(0.07)	(0.01)
DEBT-TO-EQUITY RATIO			
Total liabilities	₱5,586,730,924	₱5,414,442,945	₱5,452,370,732
Total equity (capital deficiency)	(898,723,113)	(170,323,686)	238,873,238
Debt-to-Equity Ratio	(6.22)	(31.79)	22.83
ASSET-TO-EQUITY RATIO			
Total assets	₱4,688,007,811	₱5,244,119,259	₱5,691,243,970
Total equity (capital deficiency)	(898,723,113)	(170,323,686)	238,873,238
Asset-to-Equity Ratio	(5.22)	(30.79)	23.83
INTEREST-COVERAGE RATIO			
Earnings (loss) before interest and taxes	(₱802,971,167)	(₱361,510,905)	(₱25,553,324)
Interest expense	63,899,500	57,185,057	71,895,339
Interest-Coverage Ratio	(12.57)	(6.32)	(0.36)
PROFITABILITY RATIO			
Net loss	₱860,601,711	(₱419,357,619)	(₱98,123,741)
Average equity	(534,523,400)	(85,161,843)	281,653,838
Return on Equity	(1.61)	4.92	(34.84%)

TKC METALS CORPORATION

SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2017

Unappropriated retained earnings (deficit), beginning	(₱406,266,840)
Adjustments:	
Unrealized foreign exchange gain	(17,227,871)
Accretion of interest on long-term loan receivable	(4,760,584)
Unrealized actuarial gain	(321,971)
Unappropriated retained earnings, as adjusted, beginning	(428,577,266)
Net loss based on the face of AFS	(281,071,382)
Less: Non-actual/unrealized income net of tax	
• "Day 1" loss on loan receivable	28,131,374
• Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(1,624,507)
• Accretion of interest on long-term loan receivable	(4,938,243)
Net loss actually earned/realized during the year	(259,502,758)
Unappropriated retained earnings, as adjusted, ending	(₱688,080,024)

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES AS REQUIRED BY PART II of SRC RULE 68 AS AMENDED
DECEMBER 31, 2017

Table of Contents

**There are no amounts to whom the aggregate indebtedness is ₱100,000 or 1% of total assets. In addition, the advances were made to the employees to carry out the ordinary course of business.*
***Indebtedness to related parties are classified as current.*

TKC METALS CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

			Deductions			Ending Balance		
Name and designation of debtor	*Balance at beginnning of year*	*Additions*	*Amounts collected*	*Amounts written off*	*Other changes Additions (Deductions)*	*Current*	*Not current*	*Balance at end of year*
Amounts Due from Related Parties:								
Treasure Steelworks Corporation – Subsidiary								
Trade receivables	₱2,176,670	₱–	₱–	₱–	₱–	₱2,176,670	₱–	₱2,176,670
Due from related parties	1,022,374,927	600,000	4,540,183	–	–	1,018,434,744	–	1,018,434,744
Billions Steel International Limited – Subsidiary								
Due from related parties (including long-term loan receivable)	322,802,277	–	–	–	21,568,624*	301,233,653	–	301,233,653
Campanilla Mineral Resources, Inc. – Subsidiary								
Due from related parties	731,152	19,994	–	–	–	751,146	–	751,146
	₱1,348,085,026	₱619,994	₱4,540,183	₱–	₱21,568,624	₱1,322,596,213	₱–	₱1,322,596,213

*Pertains to net effect of unearned interest income and unrealized loss arising from loan restructuring.

TKC METALS CORPORATION AND SUBSIDIARIES

SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS

DECEMBER 31, 2017

Description	*Beginning balance*	*Additions at cost*	*Deduction*		*Other changes additions (deductions)*	*Ending balance*
			Charged to cost and expenses	*Charged to other accounts*		
Leasehold Rights	₱225,953,272	₱–	(₱6,440,038)	₱–	₱11,294,751 *	₱230,807,985

*Pertains to exchange realignment arising from the translation of leasehold rights in Renminbi to Philippine peso.

TKC METALS CORPORATION AND SUBSIDIARIES

SCHEDULE H – CAPITAL STOCK

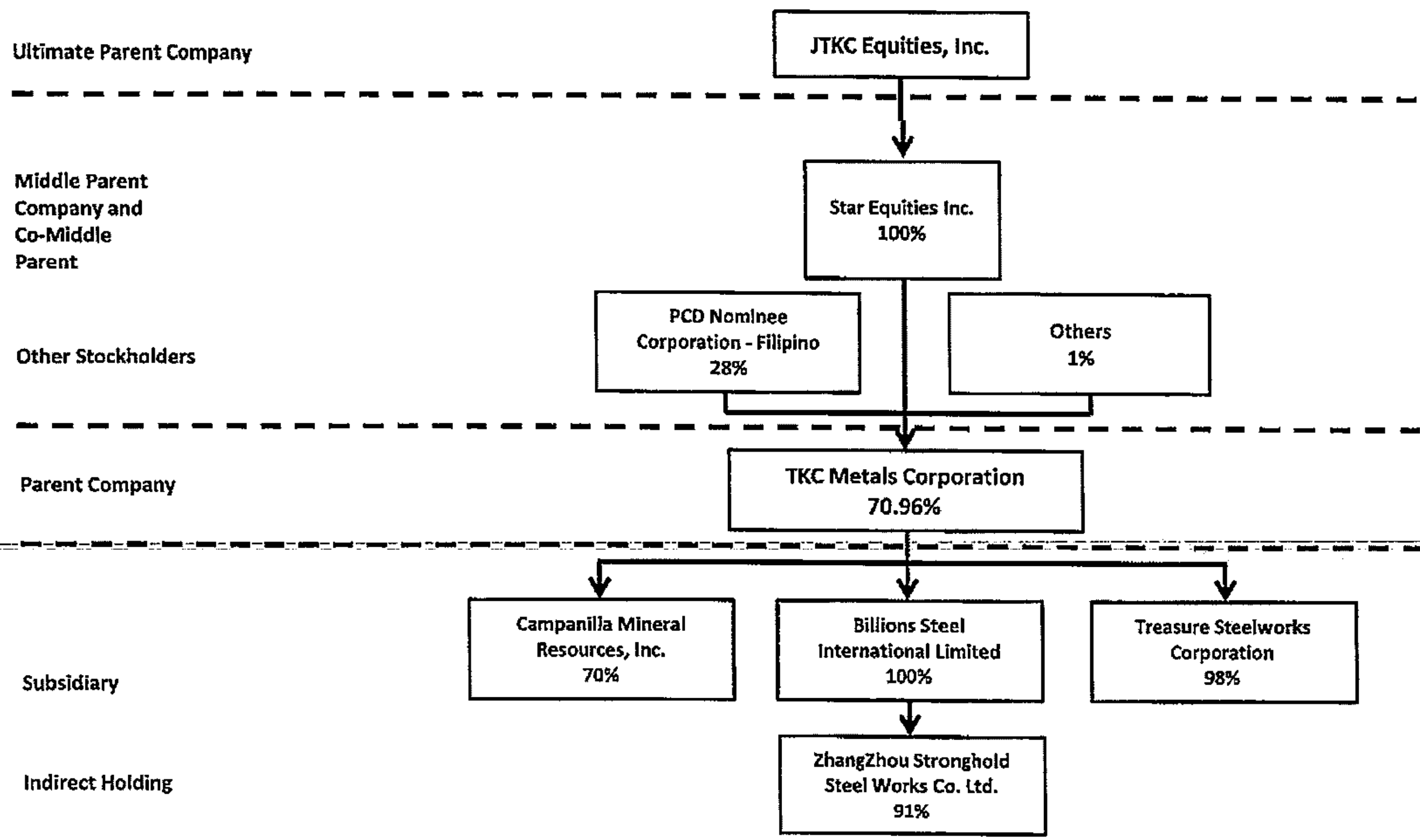
DECEMBER 31, 2017

Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related statement of financial position caption*	*Number of shares reserved for options,warrants, conversion and other rights*	*Number of shares held by*		
				Related parties	*Directors, officers and employees*	*Others*
Common stock - ₱1 par value	1,000,000,000	940,000,000	–	667,000,598	11	272,999,391

TKC METALS CORPORATION AND SUBSIDIARIES

A MAP SHOWING THE RELATIONSHIPS BETWEEEN AND AMONG THE COMPANY AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES OR CO-SUBSIDIARIES, AND ASSOCIATES

DECEMBER 31, 2017



108132018003743

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

Barcode Page
The following document has been received:

Receiving Officer/Encoder : Donna Encarnado - COS
Receiving Branch : SEC Head Office
Receipt Date and Time : August 13, 2018 04:28:57 PM
Received From : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No.	A199610620
Company Name	TKC METALS CORPORATION
Industry Classification	Mfg. Of Basic Iron And Steel
Company Type	Stock Corporation

Document Information

Document ID	108132018003743
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

FILE COPY

COVER SHEET

SEC Registration Number

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

(Company's Full Name)

2nd Floor W Tower Condominium 39th St. North Bonifacio Triangle Bonifacio Global City, Taguig

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

Efren A. Realeza Jr.
(Contact Person)

864-0736
(Company Telephone Number)

12 31
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

Remarks: Please use BLACK ink for scanning purposes.

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 **June 30, 2018**

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 [ ]

Table of Contents

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

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS
June 30, 2018
(With Comparative Figures for December 31, 2017)

	June 30 2018	December 31 2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱80,630,113	₱34,381,947
Trade and other receivables (Note 7)	186,642,258	265,935,192
Inventories (Note 8)	540,211,379	360,836,597
Creditable withholding and input value-added tax (Note 9)	289,940,260	294,575,115
Due from related parties (Note 14)	79,162,944	39,976,535
Other current assets (Note 10)	66,461,108	25,518,652
Total Current Assets	1,243,048,062	1,021,224,038
Noncurrent Assets		
Property, plant and equipment	3,625,315,352	3,404,944,583
Leasehold rights (Note 11)	166,719,971	230,807,985
Other noncurrent assets	9,442,847	31,031,205
Total Noncurrent Assets	3,801,478,170	3,666,783,773
	₱5,044,526,232	₱4,688,007,811
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱1,056,078,584	₱955,146,381
Loans payable (Note 13)	1,069,005,819	1,048,287,715
Due to related parties (Note 14)	3,566,384,515	3,560,305,233
Total Current Liabilities	5,691,468,918	5,563,739,329
Noncurrent Liabilities		
Deferred tax liabilities-net	19,013,549	15,227,983
Deferred liability	0	0
Retirement benefit liability	6,913,414	7,763,612
Total Noncurrent Liabilities	25,926,963	22,991,595
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)	(4,197,327,958)	(4,130,508,313)
Other equity reserves	532,061,001	264,897,139
Total Equity Attributable to Equity Holders of the Parent	(742,219,051)	(942,563,268)
Minority interest	69,349,402	43,840,155
Total Equity	(672,869,649)	(898,723,113)
	₱5,044,526,232	₱4,688,007,811

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(With Comparative Figures for the Six Months Ended June 30, 2017)

	2018	2017
SALES OF STEEL PRODUCTS	₱390,290,774	₱47,688,118
COST OF STEEL PRODUCTS SOLD (Note 16)	319,133,784	38,253,242
GROSS PROFIT	71,156,990	9,434,876
OTHER EXPENSES	104,318,417	49,056,999
FINANCE COST	38,082,509	40,667,019
	142,400,926	89,724,018
INCOME BEFORE INCOME TAX	(71,243,936)	(80,289,142)
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	4,893	398
Deferred		
	4,893	398
NET INCOME	(71,248,829)	(80,289,540)
Attributable To		
Equity holder of Parent	(66,819,645)	(76,142,356)
Minority interest	(4,429,184)	(4,147,184)
	(71,248,829)	(80,289,540)
Basic Earnings Per Share	(0.07)	(0.08)

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(With Comparative Figures for the Six Months Ended June 30, 2017)

	2018	2017
NET INCOME	**(₱71,248,829)**	(₱80,289,540)
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	**299,384,309**	247,637,537
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**228,135,480**	167,347,997
Attributable To		
Equity holder of Parent	**202,626,233**	146,731,427
Minority interest	**25,509,247**	20,616,570
	228,135,480	167,347,997
Basic Earnings Per Share	**0.24**	0.18

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE SECOND QUARTER ENDED JUNE 30, 2018
(With Comparative Figures for the Second Quarter Ended June 30, 2017)

	2018	2017
SALES OF STEEL PRODUCTS	₱194,316,036	₱18,456,884
COST OF STEEL PRODUCTS SOLD (Note 16)	157,834,384	16,648,635
GROSS PROFIT	36,481,652	1,808,249
OTHER EXPENSES	65,123,877	24,001,292
FINANCE COST	19,652,834	16,254,806
	84,776,711	40,256,098
INCOME BEFORE INCOME TAX	(48,295,059)	(38,447,849)
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	2,620	190
Deferred	-	-
	2,620	190
NET INCOME	(48,297,679)	(38,448,039)
Attributable To		
Equity holder of Parent	(45,220,645)	(35,888,351)
Minority interest	(3,077,034)	(2,559,688)
	(48,297,679)	(38,448,039)
Basic Earnings Per Share	(0.05)	(0.04)

TKC METALS CORPORATION AND SUBSIDIARIES
(Formerly: TKC Steel Corporation)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SECOND QUARTER ENDED JUNE 30, 2018
(With Comparative Figures for the Second Quarter Ended June 30, 2017)

	2018	2017
NET INCOME	**(₱48,297,679)**	(₱38,448,039)
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	**(49,786,181)**	31,836,649
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(98,083,860)**	(6,611,390)
Attributable To		
Equity holder of Parent	**(90,028,208)**	(7,235,367)
Minority interest	**(8,055,652)**	623,977
	(98,083,860)	(6,611,390)
Basic Earnings Per Share	**(0.10)**	(0.01)

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

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Equity Attributable to Equity Holders of the Parent							
	Capital Stock (Note 2 and 15)	Additional Paid-in Capital (Note 2)	Retained Earnings/ (Deficit)	Cumulative Translation Adjustments	Adjustment to Equity	Total	Minority Interest	Total Equity
Balance at January 01, 2018	₱940,000,000	₱1,983,047,906	(₱4,130,508,313)	₱311,341,528	(₱46,444,389)	₱(942,563,268)	₱43,840,155	₱(898,723,113)
Issuance during the period	–	–	–	–	-	0	0	0
Translation adjustments during the period	–	–	–	267,163,861	–	267,163,861	29,938,431	297,102,292
Business combination	–	–	–	–	–	–	-	-
Net income for the period	–	–	(66,819,645)	–	–	(66,819,645)	(4,429,184)	(71,248,829)
Balance at June 30, 2018	₱940,000,000	₱1,983,047,906	₱(4,197,327,958)	578,505,389	(46,444,389)	₱(742,219,052)	₱69,349,402	₱(672,869,650)

	Equity Attributable to Equity Holders of the Parent							
	Capital Stock (Note 2 and 15)	Additional Paid-in Capital (Note 2)	Retained Earnings/ (Deficit)	Cumulative Translation Adjustments	Adjustment to Equity	Total	Minority Interest	Total Equity
Balance at January 1, 2017	₱940,000,000	₱1,983,047,906	(₱3,292,266,675)	₱190,801,181	(₱46,444,389)	₱(224,861,977)	₱54,538,291	₱(170,323,686)
Issuance during the period	–	–	–	–		0	0	0
Translation adjustments during the period	–	–	–	223,216,969	–	223,216,969	24,763,753	247,980,722
Business combination	–	–	–	–	–	–	-	-
Net income for the period	–	–	(76,142,356)	–	–	(76,142,356)	(4,147,184)	(80,289,540)
Balance at June 30, 2017	₱940,000,000	₱1,983,047,906	₱(3,368,409,031)	₱414,018,150	₱(46,444,389)	₱(77,787,364)	₱75,154,860	₱(2,632,504)

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

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(₱71,243,936)	(₱80,289,142)
Adjustments for:		
Depreciation and amortization	17,504,974	12,760,945
Interest expense	38,082,509	40,667,019
Interest income	(24,482)	(2,020)
Operating income before working capital changes	(15,680,935)	(26,863,198)
Decrease (increase) in:		
Trade and other receivables	102,263,621	41,843,911
Inventories	(96,013,222)	(96,193,235)
Input value-added tax	4,634,855	(44,094)
Prepayments and other current assets	(30,482,451)	(17,530,166)
Other non-current assets	24,343,403	(31,344,431)
Increase (decrease) in:		
Trade and other current liabilities	(31,324,431)	15,045,533
Accrued retirement expense	0	0
Net cash used in operations	(42,259,160)	(115,085,680)
Interest paid	(38,082,509)	(40,667,019)
Interest received	24,482	2,020
Income tax paid	21,795,819	903,429
Net cash used in operating activities	(58,521,368)	(154,847,250)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	212,059,880	192,812,623
Advances to related party	(28,768,128)	(9,496,971)
Leasehold rights	74,958,647	70,007,046
Decrease (increase) in other noncurrent assets		0
Net cash used in investing activities	258,250,399	253,322,698
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Increase (decrease) in due to stockholders	(79,834,902)	(68,099,168)
Increase(decrease) in advances from related parties	0	0
Increase(decrease) in Deferred liability	2,767,731	2,755,548
Increase(decrease) in long-term liability	0	0
Increase(decrease) in due to related parties	6,079,282	24,567,319
Increase(decrease) in loans payable	(95,986,190)	(77,416,712)
Proceeds from issuance of capital stocks	0	0
Net cash provided by financing activities	(166,974,079)	(118,193,013)
NET FOREIGN EXCHANGE DIFFERENCE	13,493,214	5,654,442
NET INCREASE IN CASH AND CASH EQUIVALENTS	46,248,166	(14,063,123)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	34,381,947	31,061,816
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱80,630,113	16,998,693

See accompanying Notes to Consolidated Financial Statements.

Aging of Trade Receivables
As of June 30, 2018

Description	Amount	Current	Past Due		
			1 - 30 Days	31 - 60 Days	61 - 90 Days
Trade receivables:					
Export Sales	31,048,152	20,552,851	0	0	10,495,301
Domestic Sales	152,348,440	38,583,395	16,125,649	3,927,549	93,711,846
Total	183,396,592	59,136,246	16,125,649	3,927,549	104,207,147
Less allowance for doubtful accounts	-	-	-	-	-
Net Trade and Other Receivables	183,396,592	59,136,246	72,982,407	3,927,549	73,733,238

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. SQL was originally incorporated to engage in computer training, consulting services and selling of software licenses.

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 Direct	Percentage Ownership Indirect
Treasure Steel Corporation (Treasure)[a]	Philippines	Manufacture of steel products	98%	–
Billions Steel International Limited (Billions)[b]	Hong Kong	Investment holdings	100%	–
Campanilla Mineral Resources, Inc. (Campanilla)d	Philippines	Mineral production	70%	--
ZhangZhou Stronghold Steel Works Co. Ltd. (ZZ Stronghold)	People's Republic of China or PRC	Manufacture of steel pipes	–	91%c

[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. Its main products are billets, steel bars, rods, plates, sheets, pipes and similar items.

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 in Note 2.

The ultimate parent company of TKC is JTKC Equities, Inc., a domestic corporation.

The registered office address of the Parent Company is 2nd Floor W Tower Condominium 39th St., North Bonifacio Triangle, Bonifacio Global City, Taguig 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
Loans 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 interests 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, 2015.

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*

Summary of Significant Accounting Policies

Foreign Currency Translation
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 June 30, 2018 and December 31, 2017, 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.

Offsetting Financial Instruments
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.

Inventories
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.

Property, Plant and Equipment
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 and ZZ Stronghold are 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 of 25 years (Treasure) and 42 years and 50 years (ZZ Stronghold).

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.

Earnings Per Share
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.

Contingencies
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 transactions are 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.

<u>Judgments</u>
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.

Estimates

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 June 30, 2018 and December 31, 2017 creditable withholding taxes amounted to ₱70 million and ₱70 million, respectively, while input VAT amounted to ₱220 million and ₱224 million, respectively (see Note 9). No allowance for impairment loss was recognized since the Group believes that the creditable withholding tax and input VAT are recoverable.

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 June 30, 2018 and December 31, 2017, allowance for inventories amounted to ₱149 million and ₱149 million respectively. As of June 30, 2018 and December 31, 2017, the carrying values of inventories amounted to ₱540 million and ₱360 million, respectively (see Note 8).

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 amount of 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 June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017, property, plant and equipment amounted to ₱3.6 billion and ₱3.4 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 June 30, 2018 and December 31, 2017, there was no impairment on goodwill.

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 June 30, 2018 and December 31, 2017, 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.

<u>Market Risk</u>
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 PRC. Any fluctuation in the exchange rate between the Philippine Peso and the RMB, PRC's currency, will impact the amount of its investment and related accounts.

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	RMB
Assets		
Cash and cash equivalents	1,947	8,330,862
Trade and other receivables	–	15,434,273
Inventories	–	41,376,743
Creditable withholding tax and input value-added tax	–	-
Prepayments and other current assets	–	5,411,769
Total assets	1,947	70,553,647
Liabilities		
Trade and other payables	–	59,819,614
Due to related parties	–	0
Total liabilities	–	59,819,614
Net exposure	1,947	10,734,033

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

June 30, 2018 Rate of Change in Exchange Rate	Effect on Net Income (in PHP)	Effect on Equity (in PHP)
+5.0%	5,193	4,321,289
-5.0%	(5,193)	(4,321,289)
+2.5%	2,597	2,160,645
-2.5%	(2,597)	(2,160,645)

Interest Rate Risk

Interest rate risk arises from fluctuations in market interest rates. As of June 30, 2018 and December 31, 2017, the Group does not have any re-pricing financial assets or liabilities.

<u>Liquidity Risk</u>

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.

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	₱6,175,774	₱340,678,637	₱966,564	₱560,182	₱12,327,476	₱515,063,465	₱875,772,098
Loans payable	-	337,395,256	219,239,013	129,494,099	322,966,374	₱88,859,911	1,097,954,653
	₱6,175,774	₱678,073,893	₱220,205,577	₱130,054,281	₱335,293,850	₱603,923,376	₱1,973,726,751

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 June 30, 2018 and December 31, 2017 without considering the effects of collaterals nd other credit risk mitigation techniques.

	2018	2017
Cash and cash equivalents (Note 6)	**₱80,630,113**	₱34,381,947
Trade and other receivables (Note 7)	**186,642,258**	265,935,192
Due from related parties (Note 14)	**79,162,944**	39,976,535
Refundable deposits	**1,987,105**	1,987,105
	₱348,422,420	₱342,280,779

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	China	Total
Cash and cash equivalents (Note 6)	₱13,553,622	₱67,076,491	₱80,630,113
Trade and other receivables (Note 7)	62,372,188	124,270,070	186,642,258
Due from related parties (Note 14)	40,414,935	38,748,009	79,162,944
Refundable deposits	1,987,105	0	1,987,105
	₱118,327,850	₱230,094,570	₱348,422,420

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)	₱–	₱80,630,113	₱80,630,113
Trade and other receivables (Note 7)	183,396,592	3,245,666	186,642,258
Due from related parties (Notes 14)	36,597,426	42,565,518	79,162,944
Refundable deposits	1,987,105	–	1,987,105
	₱221,981,123	₱126,441,297	₱348,422,420

c. Credit quality per class of financial assets

As of June 30, 2018, 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)	₱80,630,113	₱–	₱80,630,113
Trade and other receivables (Note 7)	–	186,642,258	186,642,258
Due from related parties (Notes 14)	–	79,162,944	79,162,944
Refundable deposits	–	1,987,105	1,987,105
	₱80,630,113	₱267,792,307	₱348,422,420

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 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	₱5,717,395,881
Total equity	-672,869,649
Debt-to-equity ratio	-8.50:1

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:

	2018	2017
Cash in banks	₱80,316,921	₱ 29,706,098
Cash on hand	311,451	19,596
Short-term deposits	1,741	4,656,253
	₱80,630,113	₱34,381,947

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:

	2018	2017
Trade receivables	₱183,396,592	₱262,852,710
Others	3,245,666	3,082,482
	₱186,642,258	₱265,935,192

Treasure and ZZ Stronghold sells to customers on a cash-on-delivery basis. The outstanding balance of the trade receivables account pertains to 2017 and current deliveries settled by customers with post-dated checks. These checks were subsequently deposited and cleared with the banks.

8. Inventories

This account consists of:

	2018		2017	
	At Cost	At Net Realizable Value	At Cost	At Net Realizable Value
Raw materials, spare parts and factory supplies	₱444,945,290	₱444,945,290	₱441,209,519	₱292,904,064
Finished goods	90,677,320	90,677,320	64,520,940	64,489,360
Scrap metals	4,588,769	4,588,769	4,588,769	3,443,173
Work in progress	0	0	0	0
	₱540,211,379	₱540,211,379	₱510,319,228	₱360,836,597
Lower of cost and net realizable value		₱540,211,379		₱360,836,597

9. Creditable Withholding and Input Value-added Tax (VAT)/Prepayments and Other Current Assets

Creditable Withholding and Input VAT

This account consists of:

	2018	2017
Input VAT	₱220,028,676	₱224,144,122
Creditable withholding tax	69,451,189	69,049,815
Sub-VAT subsidy check	0	0
Deferred input VAT – current	460,395	1,381,178
	₱289,940,260	₱294,575,115

10. Prepayments and Other Current Assets

This account consists of:

	2018	2017
Advances to suppliers	₱61,895,760	₱24,523,541
Prepaid expenses	4,565,348	995,111
Refundable deposits	0	0
	₱66,461,108	₱25,518,652

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. These advances were fully liquidated the following month.

11. Leasehold Rights

This account consists of:

	ZZ Stronghold	Treasure	2018
Cost			
As at January 1	₱272,771,004	₱46,000,000	₱318,771,004
Leasehold adjustment	(55,221,839)	0	(55,221,839)
Exchange realignment	11,062,546	0	11,062,546
As at June 30, 2018	228,611,711	46,000,000	274,611,711
Accumulated Amortization			
As at January 1	64,349,686	23,613,333	87,963,019
Amortization during the period	2,137,698	920,000	3,057,698
Exchange realignment	16,871,023	0	16,871,023
As at June 30, 2018	83,358,407	24,533,333	107,891,740
Net book value, June 30, 2018	₱145,253,304	₱21,466,667	₱166,719,971

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.

ZZ Stronghold

On December 8, 2005, ZZ Stronghold entered into a contractual agreement (Agreement) with China Merchants ZhangZhou Development Zone Co. Ltd. (China Merchants) whereby China Merchants transferred the right to use the land located in 1M2-05 Zone I, China Merchants Development Zone to ZZ Stronghold for a period of 50 years. The land is where the ZZ Stronghold steel plant is located.

Under the Agreement, ZZ Stronghold has a commitment to the local government of Fujian Province to develop the land in three phases, Phase I, II and III. The total contract price for the right to use the land totaled to RMB52.3 million which can be paid on an installment basis. Contract amount and installment payments for each phase are as follows:

Particulars	Contract Amount in RMB	1st Payment in RMB	2nd Payment in RMB	3rd Payment in RMB	4th Payment in RMB
Phase I	16,334,133	5,720,000 (within 10 days after contract signing)	5,720,000 (within 1 year from contract signing)	4,894,133 (within 2 years from contract signing)	
Phase II	17,578,674	1,760,000 (within 10 days after contract signing)	4,390,000 (within 2 years from contract signing)	6,150,000 (within 3 years from contract signing)	5,278,674 (within 4 years from contract signing)
Phase III	18,353,793*	1,500,000 (within 10 days after contract signing)			

The contract price for the right to use the land amounting to ₱318.0 million (RMB 52.3 million) was initially recognized at fair value amounting to ₱234.7 million (RMB 33.8 million) and was recorded as 'leasehold rights' in the statement of financial position. The fair value was obtained using discounted cash flow techniques applying the market rate prevailing at the date of agreement. The remaining liability is carried in the statement of financial position at amortized cost using the EIR method in amortizing the related discount.

During the first semester of 2010, China Merchants, as mandated by the Fujian Provincial Government, made revisions in the original contract as follows: 1) the term of the lease for

Phase 1 was reduced to forty two (42) years from fifty (50) years. ZZ Stronghold received a refund of ₱9.3 million (RMB 1.4 million) during the first quarter of 2010 to reflect the shorter lease term; 2) a portion of the land for Phase 2 (55,089.567 square meters out of the original 179,374.822 square meters.) will no longer be delivered; and 3) due to China Merchants' inability to reclaim the land, Phase 3 land will no longer be delivered to ZZ Stronghold. As a consequence of the non-delivery of a portion of Phase 2 land and the entire area of Phase 3, the cost of leasehold rights was reduced by ₱114.0 million and the long term debt was reduced to nil in 2010.

As of June 30, 2018 and December 31, 2017, the land use rights with carrying value of ₱ 167 million and ₱230 million, respectively, were pledged to secure the loans payable of ZZS Stronghold.

12. Trade and Other Payables

This account consists of:

	2018	2017
Trade payables	**₱612,732,997**	₱817,855,449
Advances from officer	**0**	0
Advances from customers	**144,711,325**	0
Accrued Expenses	**50,386,127**	114,288,688
Withholding taxes payable	**22,805,702**	4,042,633
Others	**225,442,433**	18,959,611
	₱1,056,078,584	₱955,146,381

13. Loans Payable

This account represents unsecured loans of the Group from local commercial banks and a local investment house availed in 2017 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	337,602,442	337,602,442	Local bank	7.00%
TSC	PHP	200,000,000	200,000,000	Local bank	7.00%
ZZS	RMB	66,000,000	531,403,377	Local bank (China)	5.16% to 5.43%
			1,069,005,819		

14. Related Party Transactions

Related Parties

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:

	2018	2017
Due from related parties		
Advances-Others	₱11,838,673	₱11,838,673
Affiliates:	67,324,271	28,137,862
	₱79,162,944	₱39,976,535
Due to related parties		
Stockholder	₱2,605,289,762	₱2,908,917,700
Affiliates:	961,094,753	651,387,533
	₱3,566,384,515	₱3,560,305,233

15. Capital Stock

Capital stock as of June 30, 2018 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

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 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:

	2018	2017
Direct materials	₱273,827,567	₱26,207,799
Energy	0	0
Depreciation and amortization	6,867,326	1,911,392
Salaries, wages and employee benefits	14,288,020	2,382,875
Spare parts and factory supplies used	2,753,623	1,367,623
Outside services	0	0
Utilities and equipment rental	4,317,653	1,133,512
Freight and handling	0	0
Fuel and oil	0	0
Licenses	0	0
Others	17,079,595	5,250,041
	₱319,133,784	₱38,253,242

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.

In addition to Steps 1 to 5, 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.

As disclosed in Note 1 of the consolidated financial statements, 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 Group registered a net loss of ₱71 million for the six months ended June 30, 2018 versus a net loss of ₱80 million for the same period last year. The Group however posted a positive gross profit of ₱71 million as of the first six months of 2018 compared to the positive gross profit of ₱9 million for the same period in 2017. The consolidated sales of the Group significantly increased by ₱373 million or 718% from ₱480 million last year to ₱390 million this year. This was brought about by ZZS's increase of 489% in sales volume to 10,259 metric tons from 1,742 metric tons a year ago. Also ZZS production volume increased by 192% to 10,433 metric tons as compared to 3,573 metric tons from for the same period last year. ZZS's equivalent sales for the first six months went up also by 476% to Rmb37 million as compared to Rmb7 million of same period last year. TSC registered no sales revenue comparable to the same period last year due to nil sales volume and production as a result of the prevailing power shortage in Mindanao

The Group's financial condition remains stable with a slight increase of 7.6% in the consolidated total assets from ₱ 4,688 million at year-end 2017 to ₱5,044 million as of June 30, 2018. The Company's property, plant and equipment increased by 6.47% or ₱ 220 million from ₱3,405 million at year-end 2017 to ₱3,625 million. The appreciation in the balances was primarily due to a favorable effect of the currency translation adjustment.

Stockholders' equity improves by 25.13% or ₱226 million to a deficit of ₱672 million as of June 30, 2018 against the level of negative ₱898 million at year-end 2017. The appreciation in capital base was primarily attributable to the effect of a favorable currency translation adjustment of ₱299 million.

Total liabilities increased by ₱130 million from ₱5,586 million to ₱5,717 million or 2.34% higher over the December 31, 2017. The increase in total liabilities was due to renewal in bank loans, deposit received, accounts payable-others and taxes payable.

Causes of major movements in financial statements

Balance Sheet Items
(June 2018 vs. December 2017)

Cash and cash equivalents – 134% increased from ₱34 million to ₱81 million

Cash and cash equivalents went up by ₱46 million in the normal course of day to day operation and partial liquidation of trade receivables by ₱79 million.

Trade and other receivables –29% decreased from ₱266 million to ₱187 million

Trade receivables significantly decreased by ₱79 million that was attributable to ZZS improved sales activity and liquidation of trade receivable and collection in the other receivables account.

Inventories – 49% increased from ₱360 million to ₱540 million

The level of inventories significantly went up by ₱179 million attributable to a combined increased in factory supplies and finished goods inventory by ₱163 million due to improved sales activity of ZZS.

Creditable Withholding/Input VAT – 1.57% slightly decreased from ₱295 million to ₱290 million

The amount represents input vat and tax withheld by our customers. Creditable withholding remains constant at ₱69 million while Input Vat slightly decreased by ₱4.0 million from last year due to the low level of local purchases as a result of slower activity in operation.

Prepayments and other current assets – 160% increased from ₱26 million to ₱66 million

The increase was due to prepaid expenses of ₱62 million but these were slightly offset by the liquidation of ₱25 million in other advances from suppliers.

Property and equipment, net – 6.47% increased from ₱3,404 million to ₱3,625 million

The increase of ₱220 million was primarily attributable to a favorable currency translation adjustment.

Trade and other payables –10% increased from ₱955 million to ₱1,056 million

The increase of ₱101 million in trade and other payables was attributable to increases in deposits received for ₱144 million and accounts payable-others for ₱207 million and other payables however there were significant liquidation in trade payable and accrued expenses for ₱205 million and ₱64 million respectively.

Long-term debt – Nil

Current – Nil

This account pertains to the net present value of the leasehold right on the land where the manufacturing plant of ZZ Stronghold is situated.

Due to related parties – 0.17% increased from ₱3,560 to ₱3,566 million

There was no significant activity in the due to related accounts. This account pertains to funding and advances from affiliates to finance the operating expenses of the group.

Equity – 25% appreciate from (₱ 898) million to (₱672) million

Capital position improves although still in a deficit status recovered to a deficit of ₱672 million for the first six months of 2018 compared to a deficit of ₱898 million as at year end of 2017 as a result of a favorable currency translation adjustment of ₱299 million.

Income Statement Items
(YTD June 2018 vs. YTD June 2017)

<u>Revenue/Sales – 718% increased from ₱47 million to ₱390 million</u>

Revenue for the first six months of 2018 was significantly higher by ₱343 million for the same period a year ago due to improved sales and production of ZZS by 489% and 192% respectively.

<u>Cost of sales – 734% increased from ₱38 million to ₱319 million</u>

Consolidated cost of sales significantly increased by ₱280 million that was also attributable and comparable to ZZS significant increase in production and sales revenues.

<u>Other operating expense – 112% increased from ₱49 million to ₱104 million</u>

The other operating expenses increased by ₱55 million as a result of improved sales and operating activities in ZZS.

<u>Finance cost –6% decreased from ₱40 million to ₱38 million</u>

The net decrease in finance charges by ₱2 million was due to the impact of the market to market conditions of certain accounts.

<u>Income tax expense – 1129% increased from ₱0.005 million to ₱ nil million</u>

The level of income tax was comparable in terms of nominal value both for 2017 and this year.

Key Performance Indicators:

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

	YTD Jun. 30, 2018	YTD Jun. 30, 2017
Revenue Growth (%)	718 %	-72 %
Gross Profit Margin (%)	18 %	20.00 %
Basic Earnings per share 1/	-0.07	-0.08
	As of Jun. 30, 2018	As of December 31, 2017
Current Ratio 2/	0.22	0.18
Debt-to-Equity Ratio 3/	-8.5	-6.22
Return on Equity (%) 4/	9.07%	-1.61%

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

	June 30, 2018	December 31, 2017
CURRENT /LIQUIDITY RATIO		
Current assets	1,243,048,062	1,021,224,038
Current liabilities	5,691,468,918	5,563,739,329
Current Ratio	**0.22**	0.18
SOLVENCY RATIO		
Net loss before depreciation and amortization	(53,743,855)	(826,743,089)
Total liabilities	5,717,395,881	5,586,730,924
Solvency Ratio	**(0.01)**	(0.15)
DEBT TO EQUITY RATIO		
Total liabilities	5,717,395,881	586,730,924
Total equity	(672,869,649)	(898,723,113)
Debt to Equity Ratio	**(8.50)**	(6.22)
ASSET TO EQUITY RATIO		
Total assets	5,044,526,232	4,688,007,811
Total equity	(672,869,649)	(898,723,113)
Asset to Equity Ratio	**(7.50)**	(5.22)
INTEREST COVERAGE RATIO		
Earnings before interest and taxes	(33,161,427)	(802,971,167)
Interest Expenses	38,082,509	63,899,500
Interest Coverage Ratio	**(0.87)**	(12.57)
PROFITABILITY RATIO		
Net Loss	(71,248,829)	(860,601,711)
Average equity	(785,796,382)	(534,523,400)
Return on Equity	**0.09**	1.61

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.
OIC-CF0
August 13, 2018