

## **MATERIAL RELATED PARTY TRANSACTIONS POLICY AND GUIDELINES**

Pursuant to the Corporation's commitment to integrity in generating profitable returns, it is the policy of TKC Metals Corporation (the "Corporation") that Material Related Party Transactions between the Corporation and a Related Party, as defined below, shall be subject to the review and approval of the Corporation's Board of Directors in order to ensure that the transactions are arrived at on an arm's length basis, the terms are fair and inures to the best interest of the Corporation.

### **I. Purpose**

The purpose of this policy is to provide guidelines that would ensure the integrity and transparency of Material Related Party Transactions (RPTs) and ensure that all transactions are made at terms equivalent to prevailing market standards and at arm's length basis, to the interest of the Corporation and in particular of its minority shareholders and other stakeholders.

### **II. Definition of Terms**

- a) **"Related Parties"** – covers the Corporation's directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Corporation. It also covers the Corporation's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.
- b) **"Substantial Shareholder"** – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.
- c) **"Affiliate"** – refers to an entity linked directly or indirectly to the Corporation through any one or a combination of any of the following:
  - Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Corporation, or vice-versa;
  - Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
  - Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Corporation and the entity; or

- Management contract or any arrangement granting power to the Corporation to direct or cause the direction of management and policies of the entity, or vice-versa.
- d) **“Associate”** – An entity over which the Corporation holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Corporation has significant influence.
- e) **“Significant Influence”** – The power to participate in the financial and operating policy decisions of the corporation but has no control or joint control of those policies.
- f) **“Control”** – A person or an entity controls the Corporation if and only if the person or entity has all of the following:
- Power over the Corporation;
  - Exposure, or rights, to variable returns from its involvement with the Corporation; and
  - The ability to use its power over the Corporation to affect the amount of the corporations’ returns.
- g) **“Related Party Transactions”** – a transfer of resources, services or obligations between the Corporation and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- h) **“Material Related Party Transactions”** – any related party transaction/s, either individually, or in aggregate over a twelve-month (12) period with the same related party, amounting to ten percent (10%) or higher of the corporation’s total assets based on its latest consolidated audited financial statement.
- i) **“Materiality Threshold”** – Ten percent (10%) of the Corporation’s total assets based on its latest consolidated audited financial statement.
- j) **“Related Party Registry”** – a record of the organizational and structural composition, including any change thereon, of the corporation and its related parties.
- k) **“Abusive Material Related Party Transactions”** – refer to any material RPTs that are not entered into at arm’s length basis and unduly favor a related party.

### **III. Coverage and Materiality Threshold**

This policy shall cover all transactions with amounts equivalent to ten percent (10%) or more of the total assets of the Corporation based on its latest consolidated audited financial statement.

Transactions meeting the materiality threshold that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in this policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPTs to the approval requirements described in this policy.

Prior to execution, all potential material related party transactions to be entered into by the Corporation shall first be reviewed and approved in accordance with the guidelines set forth in this policy.

### **IV. Identification of Related Parties**

Every director, officer, and/or substantial shareholder of the Corporation is obliged to disclose any person or entity that may be regarded as Related Party of the Corporation, in accordance with this policy, on account of his being a director, officer or substantial shareholder. Such declaration shall be submitted to the Board of Directors, through the Risk and Audit Committee (“the Committee”), at the end of every quarter. The Committee may also require for such declaration pending review of a potential material RPT.

### **V. Identification, Review and Approval of Related Party Transactions**

- a) Before the execution of any transaction, the Compliance Officer shall identify if each new or proposed transaction may be regarded as a potential material RPT, and shall prepare a report, to be submitted to the Risk and Audit Committee, which covers the following information:
  - i) The terms, business purpose, benefits and other details of the material Related Party Transaction;
  - ii) Nature of the relationship of the party or parties involved in the transaction in relation to the Corporation; and
  - iii) The description of the transaction, including the affected periods to be disclosed in the financial statements, including the amounts, and such other information necessary for better understanding of the effect of the proposed transaction in the financial statements, which may include the amounts due to or from related parties to the transaction, if any, and the terms and manner of settlement.

- b) Upon receipt of the report, the Risk and Audit Committee shall determine whether or not the proposed transaction is considered a material RPT.

The Committee shall review the material RPT in accordance with the principles of integrity, transparency and fairness. To ensure that the material RPT is at arm's length and that no preferential treatment is given to related parties that are not extended to unrelated parties under similar circumstances, the following measures shall be observed:

- (1) *Effective Price Discovery Mechanism.* The Committee shall ensure the use of an effective price discovery mechanism as it may deem appropriate for the proposed material RPT under consideration. Such effective price discovery mechanism may include the engagement of an expert, subjecting the transaction to a bidding process, publication of available properties for sale, etc.
- (2) *Disclosure of material RPTs.* The Committee shall require the members of the Board, the officers and the substantial shareholders to fully disclose, in writing, all material facts related to the material RPT as well as their direct and indirect financial interest thereon that may affect the Corporation.
- (3) *Independent Evaluation.* An external independent party shall be appointed to evaluate the fairness of the terms of the material RPT to ensure the protection of the rights of the shareholders. An external independent party may include, but is not limited to, auditing or accounting firms and third party consultants and appraisers.

The evaluation shall consider the following relevant facts and circumstances:

- i) The terms of the transaction;
- ii) The aggregate value of the material RPT;
- iii) Extent of the Related Party's interest in the transaction;
- iv) Whether the material RPT would present an improper conflict of interest or special risks and contingencies for the Corporation, or the Related Party, taking into account the size of the transaction, the overall financial position of the Related Party, the direct and indirect nature of the Related Party's interest in the transaction and the nature of any proposed relationship;
- v) Availability of other sources of comparable products and services; and
- vi) Any other relevant information regarding the transaction.

Any member of the Committee who has an interest in the material RPT under review shall abstain from participating in the discussion and from voting thereon. In case of refusal to abstain, the attendance and the vote of such member shall not

be counted for purposes of assessing the quorum and of determining majority approval.

- b) The Committee shall then endorse the material RPT, together with the evaluation of the independent party, to the Board for approval.

All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the Board, with at least a majority of the independent directors voting to approve the transaction. In case a majority of the independent directors' vote is not secured, the material RPTs may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

For aggregate RPT transactions within a twelve-month (12) period that breaches the materiality threshold, the same Board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

At all times, directors, officers, and/or substantial shareholders who have an interest in the material RPT under review shall abstain from participating in the discussion and from voting thereon. In case of refusal to abstain, their attendance shall not be counted for purposes of assessing the quorum, and their votes shall not be counted for purposes of determining approval.

- c) During the implementation of the material RPT, the Risk and Audit Committee will conduct a periodic assessment of the following items:
  - i) Collectability of receivables from related parties and the need to provide allowance for doubtful accounts for such receivables;
  - ii) Market and financial risks faced by related parties;
  - iii) Guarantees issued to or received from related parties; and
  - iv) Financial and economic soundness of the Material RPTs (e.g. receivables and payables, cash placement and loans, investments in shares of stock, management/ service fees, etc.).

Should the Committee, during this periodic review, find the material RPT as abusive in nature, this fact will be reported to the Board for proper action.

Pursuant to Sections 26 and 27 of the Revised Corporation Code, an interested director or officer of a corporation shall be disqualified from being a director, trustee or officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the Securities and Exchange Commission.

## **II. Whistle-blowing Mechanism**

The Whistle-blowing Policy of the Corporation as stated in its Code of Business Conduct and Ethics shall apply to any abuse of related party transactions. Whistle-blowing in relation to material RPTs shall be reported to the Compliance Officer or to any member of the Risk and Audit Committee in accordance with the Rules and Procedure set forth in the aforementioned Code.

The confidentiality of any disclosure shall be maintained, without risk of reprisal to the whistle-blower. The whistle-blower shall refer to any person, including directors, officers, employees, shareholders, and other stakeholders.

## **III. Remedies for Abusive Material Related Party Transactions**

Non-compliance with provisions of this policy shall result in the invalidation of the contract involved in the material RPT where applicable.

The Corporate Governance Committee (“CG Committee”) shall have the authority to investigate violations of this policy. If after the investigation, the CG Committee concludes that disciplinary measures are necessary, it will recommend the same to the Board of Directors, which shall impose the appropriate penalties.

On the other hand, the Risk and Audit Committee, in addition to their mandated functions herein, shall recommend measures that would cut losses and allow recovery of losses or opportunity costs incurred by the Corporation arising from abusive or fraudulent RPTs including sanctions.

## **IV. Periodic Review of the Material RPT Policy**

The Compliance Officer shall conduct a periodic review of the effectiveness of the Corporation’s system and internal controls governing material RPTs to assess the consistency with the board-approved policies and procedures. The results will be communicated directly to the Risk and Audit Committee, and then to the Board of Directors.

The Board shall review and update the Related Party Registry of the Corporation on a quarterly basis in order to capture any organizational and structural changes in the Corporation and its related parties.

## **V. Disclosure of RPTs**

In accordance with the SEC rules and regulations, full disclosure of the details, nature, extent, and all other material information on the material RPTs including but not limited to the financial or non-financial interest of the related parties, the type and nature of the transaction including a description of the assets involved, the percentage of the contract price to the total consolidated assets of the

Corporation, the rationale for entering into the transaction, and the approval obtained shall be made by the Corporation.

This Material RPT Policy shall also be posted on the company's website (<https://tkcmetals.com.ph/>) within five (5) days from its submission to the Securities and Exchange Commission.

The foregoing Policy was approved by the members of the Board of Directors on this 21<sup>st</sup> day of October 2019, at the principal office of the Corporation.



**BEN C. TIU**  
Chairman, Board of Directors



**WILFRIDO O. GAMBOA**  
Compliance Officer