COVER SHEET

A1996-10620
SEC Registration Number

TKC METALS CORPORATION AND SUBSIDIARIES
(Company's Full Name)

2nd FlooR W TOWER CONDOMINIUM, 39th St. NORTH BONIFACIO TRIANGLE BONIFACIO GLOBAL CITY TAGUIG 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

S T A M P S

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, 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 : **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. 289,379,354.00 (as of March 31, 2019)

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PART II - OPERATIONAL AND FINANCIAL INFORMATION

PART I - BUSINESS AND GENERAL NFORMATION

ITEM 1 - BUSINESS

General Information

TKC Metals Corporation, formerly TKC Steel Corporation (the Parent Company or TKC) was organized and registered with the Securities and Exchange Commission (SEC) on November 28, 1996. TKC's shares of stock were listed for trading in the Philippine Stock Exchange (PSE) 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.

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*

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.

Business of Issuer

Products

TKC is organized as an operating and holding company engaged in the manufacturing and the distribution of various steel products primarily through its two (2) subsidiaries, as follows:

(a) Treasure Steelworks Corporation (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)Zhangzhou Stronghold Steel Works Co. Ltd.(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.

Operational Situation

The recent years from the end of 2013 saw the downward spiraling of the prices of steel. Both TSC and ZZS were constrained to reduce their operation for the past years. Furthermore, the scarcity and high cost of raw scrap materials and lack of sufficient electric power in the Mindanao area severely hampered TSC’s continuous production of its main product line. Realizing the volatility of steel prices and the continued problem on power supply, the Management has embarked on a restructuring and diversification of its product lines that demand a higher export prices, price is less volatile in the world market, better world-wide demand and less dependency on electric power supply.

Management Plans

Potential Investor

On May 7, 2019, the Parent Company has entered into an investment agreement with a prospective investor, whereas, the investor has signified its intention to subscribe to the common stock of the Parent Company and make available the necessary funding requirements of the Group. The investment will be used for the diversification of the Group's operations and additional financing to complete the Group's construction and resume commercial operations in Iligan City.

Equity Restructuring

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

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

Of the increase in authorized capital stock of ₱2,000.0 million divided into 2,000.0 million shares at ₱1 par value a share, 750.0 million shares will be subscribed by third parties for ₱1,500.0 million. The subscriptions will be paid in full by converting their assigned advances from Treasure to the Parent Company to equity (see Note 14).

On September 3, 2018, the BOD approved the subscription and debt to equity conversion.

On October 25, 2018, the increase in authorized capital stock was approved by the stockholders. The Parent Company applied for the increase in authorized capital stock with the SEC on December 21, 2018. As at May 15, 2019, the SEC's approval on the increase in authorized capital stock is still pending.

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

New Ventures

The Parent Company is considering partnering with several companies from New Zealand, United States of America and United Kingdom for the fabrication and supply of equipment in the Philippines and across Asia. Moreover, the Parent Company is looking into environmental projects (flood control solutions) related to the government's "Build, Build, Build Program".

Organizational Restructuring

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

Status of Operations of Main Steel Subsidiaries

Treasure Steelworks

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

Treasure is looking into a new technology for nickel leaching. This chemical process will take only two hours to extract nickel from laterite ores and will result to a nickel recovery rate of 20-50%. Treasure is currently in discussion with a third party to provide the technology, consultancy, installation and supervision of the required equipment; and to supply the patented chemical in the production that will guarantee the quality and consistency of nickel concentrate.

The processing plant will be developed in Iligan City to accommodate future expansion on this new environmentally-friendly nickel-leaching technology. Treasure is also securing all the necessary permits to ensure compliance on environmental law in line with the planned diversification of operation from billets to nickel concentrate.

The Management plans to start the rehabilitation of the plant facilities and installation of the new equipment for nickel concentrate as soon as we generate revenue from nickel leaching.

ZZ Stronghold

With regards ZZS, talks and initial discussion is on-going with a prospective investor from Hong Kong Guangbo group who is in the business of used tire recycling. The Management plans to put up this tire recycling plant inside the plant of Zhangzhou Stronghold in Fujian Province, China, the product of which will become the raw materials in making new products. The vacant property needs to be developed in order to accommodate the production capacity of the new project. The projected investment will have a positive impact to our China operation.

With the present ZZS's reduced of operation and TSC's suspended operation 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. 0.00	0
China	736	100

(b) Net Loss

Country	Amount	%
Philippines	Ps.79	56
China	63	44

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

Prior to suspension of its plant operation in 2013 primarily due to shortage in power supply in Mindanao and volatile steel price, 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.

In line with the future diversification of our product lines and introduction of a new kind of production technology towards the planned shifting from billets production to nickel concentrate and nickel leaching process, the Management is actively and currently coordinating with the Government Environmental Regulators pertaining to the various requirements and compliance on environmental laws and regulations prior to commercial operations of this new production process.

Employees

TKC currently has 8 employees, namely: Vice-Chairman, President and Chief Operating Officer, Chief Financial Officer, Head of Corporate Services/Compliance 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. Despite the present operational situation of the Group, our related parties, however, have continued to finance the necessary financial support and funding to sustain operations and to meet the Group's maturing obligations.

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 Company Management has submitted to the Philippine Stock Exchange a detailed restructuring plan of activities it will undertake and timetable to bring the stockholders' equity back to positive. In addition, the Group has been negotiating with the prospective investors for additional financing to complete the Group's plant construction, diversification using new production technology, resume commercial operation and generate adequate revenues that will result to a better capital position.

The 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, 2018, this ratio is:

	Amount
Total liabilities	Ps. 4,185,975,910
Total equity	401,907,354
Debt-to-equity ratio	10.41:1

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 locallyand any shortage in supply of scrap metal may adversely affect TSC's operations. Due to the scarcity of the availability of scrap materials and high cost of scrap, the operation of TSC was severely affected.

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

The following subject matters were submitted for the approval of the stockholders during the 2018 Annual Meeting of the Stockholders held on the 25th of October 2018 namely the Reports and Presentation of 2017 Audited Financial Statements, Election of the Members of the Board of Directors, Appointment of External Auditor and Increase in Authorized Capital Stock and Conversion of Advances to Equity.

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, 2019	1.03	1.00
Year Ended December 31, 2018		
1st Quarter	1.05	1.04
2nd Quarter	0.93	0.90
3rd Quarter	1.00	0.97
4th Quarter	0.85	0.85
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

Holders of Common Equity

As of December 31, 2018, the Corporation has a total of 940,000,000 issued and outstanding shares, owned by 39 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)	268,240,021	28.5362
3. Sio, Elsie Chua	900,000	0.0957
4. Napoles, Janet L.	300,000	0.0319
5. Uy, Francisco	200,000	0.0213
6. Hernandez, Elmer C.	100,000	0.0106
7. Ko, Michael Anthony Lee	100,000	0.0106
8. Martin, Francisca S.	90,000	0.0096
9. Enrile, William T.	50,000	0.0053
10. De Villa, Henrietta	20,000	0.0021
11. Chua Co Kiong, William N.	15,000	0.0016
12. Resurreccion, Antonio	10,000	0.0011
13. Insua, Jose Cesar	10,000	0.0011
14. Puno Orpha C.	10,000	0.0011
15. Estrada, Claudia Patricia	6,250	0.0007
16. Evangelista, Maria Imelda	6,250	0.0007
17. Garcia, Luningning	6,250	0.0007
18. Saplala, Victor	6,250	0.0007
19. Tesorio, Clairol Marie V.	6,250	0.0007
20. Uttamchandani, Jay	2,000	0.0002

Based on the records of our Stock Transfer Agent, Professional Stock Transfer, Inc., TKC Metals Corporation has 29.0425% public ownership level as of March 31, 2019.

Dividends

The Corporation did not declare dividends in 2018 and 2017.

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, 2018, 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: 2018, 2017 and 2016)

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.

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

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)	2018	2017	2016	Increase (Decrease) 2018/2017 (%)	Increase (Decrease) 2017/2016 (%)
Revenue	736	364	272	102 %	34%
Cost of Sales	687	341	328	101 %	4%
Gross Income (Loss)	49	22	(56)	123 %	(139%)
Operating Expenses	191	889	362	-79%	146%
Net Income	(143)	(860)	(419)	(83 %)	105 %

Operating performance posted a net loss for the current year due to the suspended and minimal operation of our two main subsidiaries, the adverse market conditions and the Corporation's focus on its plant modernization, diversification and expansion program. The Corporation posted net losses of Ps. 143 million, Ps. 860 million and Ps. 419 million in 2018, 2017 and 2016, respectively, primarily due to lower production and sales volume coupled with lower demand and price in the market. The current results of operation showed a significant improvement by 83% as compared to last year.

Despite the very competitive market conditions the total sales went up by 102% to Ps.736 million in 2018 compared to Ps. 364 million and Ps.272 million in 2017 and 2016 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 down by 79% from Ps. 889 million in 2017 to Ps. 191 million in 2018. Significant decreases were noted in the following accounts as follows: taxes and licenses 40%; transportation and travel 40%; professional fee 77% and nil provision for impairment loss on receivables and construction in progress by 100%.

- Financial Condition

Accounts (In Million Pesos)	2018	2017	2016	Increase(Decrease) 2018/2017 (%)	Increase(Decrease) 2017/2016 (%)
Current Assets	981	1,032	987	(5 %)	3%
Total Assets	4,588	4,688	5,244	(2 %)	-11 %
Current Liabilities	4,161	5,563	5,383	(25 %)	3 %
Total Liabilities	4,185	5,586	5,414	(25 %)	3 %
Equity	402	(898)	(170)	(145 %)	(-428 %)

Our total asset base was reduced by just 2% to Ps. 4,588 million from the previous year's level of Ps. 4,688 million. Although the cash and cash equivalents improves by 89% from Ps. 34 million to Ps. 65 million, these were offset by the decrease in trade and other receivables for Ps.107 million or 40% from Ps. 265 million to Ps.158 million due to liquidation of trade accounts. Other non-current assets accounts notably Advances to contractors went down by 37% from Ps. 31 million to Ps.19 million

Current ratio for the years 2018 and 2017 remains stable at 0.2:1 and 0.2:1 respectively while debt-to-equity ratio recovered from negative to positive 10.43:1 from -6.21:1 in 2017.

c. 2018 versus 2017 (for updating)

- Results of Operations

The Corporation registered a consolidated net loss of Ps. 143 million in 2018 compared to a net loss of Ps. 860 million a year ago. The bottom line performance improves significantly due to improved sales activity and results in ZZS operation. Although TSC is non-operating for the last five years, the prospect of looking for the right investors is still active as there were several groups who have visited the plant. The company is shifting to production of nickel concentrate and nickel pig iron that requires 25% of the original power supply requirement. TSC is currently in discussion with a third party to provide the new technology for nickel leaching. This chemical process will take only two hours to extract nickel from laterite ores and will result to a nickel recovery rate of 20-50%.

ZZS operation has 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. ZZS has initial discussion with a prospective investor who is in the business of tire recycling in China. This projected investment will be installed in ZZS Plant and will have a positive impact to our China operation.

Revenue increased by 102% to Ps. 736 million compared to a year ago of Ps. 363 million with ZZS contributing 100% of the Group sales. The Corporation however registered a 123% increase in gross profit of Ps. 49 million in 2018 compared to a gross loss of Ps. 22 million in 2017. 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 was reduced by 83% from a negative Ps.860 million to Ps.143 million.

Operating expenses went down to Ps.191 million or 79% lower from the 2017 level of Ps. 889 million. The major factor for the lower operating expenses were in the following accounts: a) nil provision for impairment loss; taxes and licenses by 40%; transportation and travel by 40%; and professional fees by 77%.

- Financial Condition

Total assets is still stable as it went down by a merely 2% to Ps. 4,588 million in 2018 from last year's figure of Ps. 4,688 million. The decrease was primarily due to the liquidation of trade receivables by about Ps.107 million or 40% from Ps. 266 million last year to Ps. 158 million. There were some minimal increases and decreases in the other assets accounts, 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 but stable 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 21% and 22% respectively for 2018 and 2017.

In 2018, total liabilities went down by 25% or Ps. 1,401 million from Ps. 5,586 million to Ps. 4,185 million. There were significant decreases in accrued payable by 22% or Ps. 25 million from Ps. 114 million to Ps. 90 million; withholding tax payable by 16% or Ps. 0.7 million from Ps. 4.0 million to Ps. 3.4 million; loans payable decreased by 2% or Ps. 17 million from Ps. 1,048 million to Ps. 1,031 million; and due to related parties by 41% or Ps.1,473 million from Ps. 3,560 million to Ps. 2,087 million.

Our resulting capital base has recovered significantly to a positive Ps. 402 million as of 2018 from a negative equity of Ps. 898 million in 2017. With the 102% increase in revenue generated by ZZS, the deposit for future subscriptions of Ps. 1,500 million and coupled with lower operating expenses, the deficit was totally erased. As a result of the appreciation in our capital base, debt to equity ratio improves also to 10.41:1 from a year ago of -6.1:1.

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

• Cash and cash equivalents increased significantly by 89% to Ps. 65 million from Ps. 34 million a year ago brought about by a significant liquidation in the trade accounts.

• Trade and other receivable went down by Ps. 107 million or 40% from Ps. 265 million to Ps. 158 million due to enhanced collection activity both domestic and abroad.

• Inventories slightly went down by Ps. 3.5 million or 1% from Ps. 361 million to Ps. 357 as ZZS is still operating at less capacity

• Creditable withholding and value-added taxes slightly went down by 2% or Ps. 5 million from Ps. 294 million to Ps. 289 million respectively for the years 2017 and 2018 primarily due to minimal business activities.

• Property, plant and equipment remains constant and stable at Ps. 3.4 billion level as there was no provision for impairment loss for the current year.

• Other non-current assets remain constant at Ps. 19 million respectively for the year 2018 and 2017

• Trade and other payables went up by 13% or Ps. 110 million from Ps. 818 million to Ps. 928 million notably in trade payables by Ps. 50 million ; deposit received by Ps. 41 million and tax payables by Ps. 21 million.

• Loans payable went down by Ps. 17 million or 2% from Ps. 1,048 million to Ps. 1,031 million as a result of short-term renewal of credit facilities of ZZS for their production and selling activities.

• Equity appreciated significantly to a positive Ps. 402 million from a negative Ps. 898 million a year ago. This appreciation was brought about by the increase in the consolidated revenue, coupled with lower operating expenses and the deposits for future subscriptions.

d. 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.

e. 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.

f. Key Performance Indicators

Performance Ratios	2018	2017	2016
Revenue Growth (%)	**102%**	**34 %**	**(25%)**
Gross Profit Margin (%)	**7%)**	**6 %**	**(21%)**
Basic Loss per share 1/	**(Ps. 0.2)**	**(Ps. 0.90)**	**(Ps. 0.42)**
Current Ratio 2/	**0.2**	**0.2**	**0.2**
Debt-to-Equity Ratio 3/	**10.4)**	**(6.2)**	**(31.7)**
Return on Equity 4/	**0.58**	**(1.61)**	**4.92**

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, 2018, 2017 and 2016 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 incumbent members of the Board of Directors of the Corporation were elected during the Annual Stockholders Meeting held on 25th of October 2018.

Ben C. Tiu, Filipino, 66, 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.

Domingo S. Benitez Jr., Filipino, 63, is a Director and the **President** of the Corporation. His main expertise and line of business is in solution system provider in the Mechanical works involving Water, Waste water, Oil & Gas and Hydro Power Industry. He did also a couple of major projects in Brunei such as EPC Company for the upgrading of fire fighting for the Brunei Shell Marketing Depot Terminal, Water, Sewerage and Treatment Plant. He was previously the Business Development Manager-Asia Pacific of Emech Control Ltd.-New Zealand from April 206 to October 2008. He was also the Project Manager-Process of Tyco Flow Control Pacific Pty Ltd.,- New Zealand from November 2005 to February 2006. He also works as the Business Development Manager & Project Manager of Beaver Company-Brunei from January 1992 to August 2005. Mr. Benitez earned his Bachelor of Science Degree in Mechanical Engineering from Far Eastern University in 1979.

Ignatius F. Yenko, Filipino, 67, is a Director and **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, 63, is a **Director** 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.

Antonio Jacob Elizaga, Filipino, 52, is the **Treasurer and Director** of the Corporation.

Alexander Y. Tiu, Filipino, 43, 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, 58, 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, 85, 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, 74, 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, 75, 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, 76, 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

Domingo S. Benitez Jr. - President and Chief Operating Officer

Antonio Jacob Elizaga – Treasurer

Wilfrido O. Gamboa, Filipino, 64, 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, 58, 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, 30, is the **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.

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 and Alexander Y. Tiu, all Directors of the Corporation, are siblings.

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 the 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.

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 2017, 2018 and 2019.
All members of the Board of Directors receive per diem per meeting only.

2017

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 and Chief Compliance Officer			
Efren A. Realeza Jr. Head of Accounting Services			
Aggregate Compensation of all Above-named Officers	6,389,350		
Aggregate Compensation of all above- Named Officers and Directors	6,404,350		

2018

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Domingo S. Benitez Jr. President and Chief Operating 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	5,136,500		
Aggregate Compensation of all Above-named Officers and Directors	5,151,500		

2019 (Estimated)

Name and Principal Position	Salary (Annual)	Bonus	Other Annual Compensation
Ignatius F. Yenko Vice-Chairman			
Domingo S. Benitez Jr. 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	4,036,500		
Aggregate Compensation of all Above-named Officers and Directors	4,080,500		

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

Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2018, 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	268,240,021	28.54%

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. Tan, A. Bayani K. De Villa, Vicente V. Benitez, Domingo S. Jr. Somera, Jr., Prudencio C. Tiu, Ben C.	1 1 1 1 1 1	-- -- -- -- -- --
	Elizaga, Antonio Jacob Valdez, Enrico G. Yenko, Ignatius F. Pablito B. Bermundo Victor C. Fernandez	1 1 1 1 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, 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.

PART IV - CORPORATE GOVERNANCE

ITEM 13 – Corporate Governance

The Corporation, through its Compliance Officer, Wilfrido O. Gamboa, has monitored the Corporation's compliance with SEC Memorandum Circular No. 2 dated April 5, 2002 and the relevant SEC Circulars on Corporate Governance and with the Manual of Corporate Governance adopted by the Company.

PART V - EXHIBITS AND SCHEDULES

ITEM 14 – Exhibits and Reports on SEC Form 17-C

The Corporation has filed the SEC Form 17-C reports during the fiscal year ending December 31, 2018:

Date Filed	**Items Reported**
25 October 2018	Amend Articles of Incorporation to reflect its change of principal address from Makati City to Taguig City at 2nd Flr. W Tower Condominium, 39th. St., Bonifacio Global City, Taguig
25 October 2018	Amend Articles of Incorporation in increasing the Authorized Capital Stock from One Billion Pesos to Three Billion Pesos
25 October 2018	Reports and presentation of 2017 Audited Financial Statements and Results of Operation
25 October 2018	Election of the Directors and Officers of the Corporation and appointment of Reyes Tacandong & Co. as External Auditor for the Year-2018
21 September 2018	Notice of Annual or Special Stockholder's Meeting on October 25, 2018

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 ____, 2019.

By:

Ben C. Tiu Chairman of the Board	Domingo S. Benitez Jr. President and Chief Operating Officer
Antonio Jacob Elizaga Treasurer	Efren A. Realeza Jr. OIC-Chief Financial Officer

Ann Margaret K. Lorenzo
Corporate Secretary

SUBSRIBED AND SWORN to before me this _______day of MAY 16 2019 2019 affiants exhibiting to me his/her Passport, as follows:

NAMES	PASSPORT NO.	VALID UNTIL	PLACE OF ISSUE
Ben C. Tiu	EC3799702	03/25/2020	DFA NCR East
Domingo S. Benitez Jr.	LK518261	10/21/2026	DIA WLG
Antonio Jacob Elizaga	EC7540751	04/26/2021	PCO Xiamen
Efren A. Realeza Jr.	EC6208182	12/13/2020	DFA NCR Central
Ann Margaret K. Lorenzo	EC1023699	05/07/2019	DFA NCR East

PATRICIA ANN M. CRUZ
Notary Public for Cities of Pasig and San Juan
and in the Municipality of Pateros
Appointment No. 182 (2018-2019)
Commission Expires on December 31 2019
2704 East Tower, PSE Centre, Exchange Road
Ortigas Center, 1605 Pasig City
PTR No. 2843813/ 01 11.2019 / Mandaluyong
IBP LRN No. 016261 / 06.17 19 / Manila II
Roll of Attorneys No. 68370
MCLEC No. VI-0009727 / 07.03.18

Doc. No. 478;
Page No. 97;
Book No. III;
Series of 2019

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 - 1 0 6 2 0

C O M P A N Y   N A M E

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

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number/s	Mobile Number
earealeza@yahoo.com	**(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, 2018 and 2017, 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: ____________________
Domingo S. Benitez Jr.
President and Chief Operating Officer

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

SUBSCRIBED AND SWORN to before me this .... day of MAY 0 3 2019 19 .... at Makati, Metro Manila Philippines, affiant exhibiting to me his/her Res. Certificate No. .... issued at MAKATI CITY .... on ....

Doc. No. 72
Page No. 10
Book No. 919
Series of

RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2019
IBP. NO. 058333/01-03-2019
ROLL NO. 28947/MCLE 5/6-8-17
PTR NO. MKT. 7333572/1-3-19 APPT. NO. M-127
2086 E. PASCUA ST., MAKATI CITY

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
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, 2018 and 2017, 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, 2018, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018, 2017 and 2016 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 continuing losses. The Group has consolidated total comprehensive loss of ₱199.4 million, ₱728.4 million and ₱409.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. Treasure has ceased operations in 2013. Moreover, the two subsidiaries had to suspend its plant construction projects which aggregated ₱3,102.3 million and ₱3,104.6 million as at December 31, 2018 and 2017, respectively.

These events or conditions, along with other matters as set forth in Note 1, indicate a material uncertainty 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 sustain operations and to meet the Group's maturing obligations. In 2018, a stockholder has assigned ₱1,500.0 million of his advances to Treasure to foreign investors who, in turn, reassigned these advances to the Parent Company and applied the advances against their subscriptions to the Parent Company's increase in authorized capital stock. The increase is still pending approval with the Securities and Exchange Commission. As at December 31, 2018, due to related parties aggregated ₱2,087.0 million.

The Group has also been negotiating with prospective investors for financing the diversification and resumption of the Group's operations in Iligan City and the completion of the Group's construction. The Group's management plans for Treasure and ZZ Stronghold are 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.

- *Valuation of Property, Plant and Equipment*

  As at December 31, 2018, the Group has property, plant and equipment amounting to ₱3,365.3 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 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 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.

- *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 assessment of the net realizable value of the inventories.

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, 2018, 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, 2018 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, these 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 the audit.

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 audit resulting in this independent auditors' report is Emmanuel V. Clarino.

REYES TACANDONG & CO.

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
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
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May 15, 2019
Makati City, Metro Manila

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	December 31 2017
ASSETS			
Current Assets			
Cash and cash equivalents	4	**₱64,941,556**	₱34,381,947
Trade and other receivables	5	**158,393,313**	265,935,192
Inventories	6	**357,275,209**	360,836,597
Due from related parties	14	**39,976,535**	39,976,535
Creditable withholding tax (CWT) and input value-added tax (VAT)	7	**289,380,177**	294,575,115
Other current assets	8	**71,446,534**	37,050,738
Total Current Assets		**981,413,324**	1,032,756,124
Noncurrent Assets			
Property, plant and equipment	9	**3,365,289,411**	3,404,944,583
Leasehold rights	10	**221,681,410**	230,807,985
Other noncurrent assets	11	**19,499,119**	19,499,119
Total Noncurrent Assets		**3,606,469,940**	3,655,251,687
		₱4,587,883,264	₱4,688,007,811
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)			
Current Liabilities			
Trade and other payables	12	**₱1,043,783,374**	₱955,146,381
Loans payable	13	**1,031,025,531**	1,048,287,715
Due to related parties	14	**2,087,031,487**	3,560,305,233
Total Current Liabilities		**4,161,840,392**	5,563,739,329
Noncurrent Liabilities			
Retirement liability	20	**8,906,670**	7,763,612
Deferred tax liabilities	25	**15,228,848**	15,227,983
Total Noncurrent Liabilities		**24,135,518**	22,991,595
Total Liabilities		**4,185,975,910**	5,586,730,924
Equity (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		**(4,267,115,931)**	(4,130,508,313)
Deposits for future subscription	15	**1,500,000,000**	–
Other equity reserves		**213,962,770**	264,897,138
		369,894,745	(942,563,269)
Non-controlling Interest		**32,012,609**	43,840,156
Total Equity (Capital Deficiency)		**401,907,354**	(898,723,113)
		₱4,587,883,264	₱4,688,007,811

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2018**	2017	2016
REVENUE		**₱736,032,007**	₱363,589,343	₱272,381,278
COSTS OF GOODS SOLD	17	**(687,390,080)**	(341,240,630)	(328,906,407)
GROSS INCOME (LOSS)		**48,641,927**	22,348,713	(56,525,129)
OPERATING EXPENSES	18	**(194,558,188)**	(183,857,335)	(168,814,567)
INTEREST EXPENSE	13	**(63,425,257)**	(63,899,500)	(57,185,057)
PROVISION FOR IMPAIRMENT LOSS	19	**–**	(683,665,830)	(152,630,982)
OTHER INCOME – Net	24	**66,962,789**	42,203,285	16,459,773
LOSS BEFORE INCOME TAX		**(142,378,729)**	(866,870,667)	(418,695,962)
PROVISION FOR (BENEFIT FROM) INCOME TAX	25			
Current		**1,018,105**	603,793	661,657
Deferred		**865**	(6,872,749)	–
		1,018,970	(6,268,956)	661,657
NET LOSS		**(143,397,699)**	(860,601,711)	(419,357,619)
OTHER COMPREHENSIVE INCOME (LOSS)				
To be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations		**(55,971,834)**	129,577,081	9,838,724
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
		(55,971,834)	132,202,284	10,160,695
TOTAL COMPREHENSIVE LOSS		**(₱199,369,533)**	(₱728,399,427)	(₱409,196,924)
NET LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		**(₱136,607,618)**	(₱838,241,638)	(₱397,238,827)
Non-controlling interest		**(6,790,081)**	(22,360,073)	22,118,792
		(₱143,397,699)	(₱860,601,711)	(₱419,357,619)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		**(₱187,541,986)**	(₱717,701,291)	(₱387,963,618)
Non-controlling interest		**(11,827,547)**	(10,698,136)	(21,233,306)
		(₱199,369,533)	(₱728,399,427)	(₱409,196,924)
BASIC LOSS PER SHARE	27	**(₱0.15)**	(₱0.89)	(₱0.42)

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 (see Note 15)	Additional Paid-in Capital	Deficit	Deposits For Future Subscription (see Note 15)	Cumulative Remeasurement Gain (Loss) on Retirement Liability	Cumulative Translation Adjustments	Adjustments to Equity (see Note 16)	Capital Deficiency Attributable to Equity Holders of the Parent Company	Non-controlling Interest	Total Equity (Capital Deficiency)
Balance at December 31, 2017	**₱940,000,000**	**₱1,983,047,906**	**(₱4,130,508,313)**	**₱–**	**₱2,298,818**	**₱309,042,709**	**(₱46,444,389)**	**(₱942,563,269)**	**₱43,840,156**	**(₱898,723,113)**
Deposits for future subscription	**–**	**–**	**–**	**1,500,000,000**	**–**	**–**	**–**	**1,500,000,000**	**–**	**1,500,000,000**
Net loss	**–**	**–**	**(136,607,618)**	**–**	**–**	**–**	**–**	**(136,607,618)**	**(6,790,081)**	**(143,397,699)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(50,934,368)**	**–**	**(50,934,368)**	**(5,037,466)**	**(55,971,834)**
Balance at December 31, 2018	**₱940,000,000**	**₱1,983,047,906**	**(₱4,267,115,931)**	**₱1,500,000,000**	**₱2,298,818**	**₱258,108,341**	**(₱46,444,389)**	**₱369,894,745**	**₱32,012,609**	**₱401,907,354**
Balance at December 31, 2016	₱940,000,000	₱1,983,047,906	(₱3,292,266,675)	₱–	(₱326,385)	₱191,127,565	(₱46,444,389)	(₱224,861,978)	₱54,538,292	(₱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	₱309,042,709	(₱46,444,389)	(₱942,563,269)	₱43,840,156	(₱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	8,953,238	–	9,275,209	885,486	10,160,695
Balance at December 31, 2016	₱940,000,000	₱1,983,047,906	(₱3,292,266,675)	₱–	(₱326,385)	₱191,127,565	(₱46,444,389)	(₱224,861,978)	₱54,538,292	(₱170,323,686)

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		**(₱142,378,729)**	(₱866,870,667)	(₱418,695,962)
Adjustments for:				
Interest expense	13	**63,425,257**	63,899,500	57,185,057
Depreciation and amortization		**45,919,211**	40,625,417	56,238,062
Gain on sale of transportation equipment	24	**(40,324,694)**	(2,406,779)	–
Unrealized foreign exchange loss (gain)	24	**(15,700,477)**	(12,654,988)	22,235,725
Write off of receivables	5	**11,866,475**	17,701,158	29,142,842
Interest income	4	**(199,040)**	(87,916)	(124,372)
Provision for impairment losses	19	**–**	683,665,830	152,630,982
Operating loss before working capital changes		**(77,391,997)**	(76,128,445)	(101,387,666)
Decrease (increase) in:				
Trade and other receivables		**105,938,381**	(119,381,662)	35,520,376
Inventories		**(47,988,890)**	116,558,792	31,016,131
CWT and input VAT		**5,194,938**	813,255	104,880
Due from related parties		**–**	–	(9,399)
Other current assets		**(33,382,828)**	(83,340,764)	63,386,872
Other noncurrent assets		**410,371**	(12,615,625)	1,797,484
Increase in:				
Trade and other payables		**97,461,855**	188,684,064	44,445,404
Retirement liability		**1,143,058**	1,281,553	692,468
Net cash generated from operations		**51,384,888**	15,871,168	75,566,550
Income tax paid		**(1,018,105)**	(603,793)	(661,657)
Interest received		**199,040**	87,916	124,372
Net cash provided by operating activities		**50,565,823**	15,355,291	75,029,265
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposals of property, plant and equipment		**40,359,950**	2,446,429	3,152,989
Acquisitions of property, plant and equipment	9	**(2,004,646)**	(490,686)	(10,411,640)
Net cash provided by (used in) investing activities		**38,355,304**	1,955,743	(7,258,651)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Due to related parties		**41,523,332**	114,227,794	26,890,605
Availment of loans payable		**502,134,513**	13,984,534	472,348,731
Payments for:				
Related parties		**(14,797,078)**	(76,749,966)	(15,338,520)
Loans payable		**(519,418,742)**	–	(523,939,143)
Interest		**(64,438,225)**	(64,759,150)	(57,185,057)
Net cash used in financing activities		**(54,996,200)**	(13,296,788)	(97,223,384)

(Forward)

	Note	Years Ended December 31 2018	2017	2016
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**(₱3,365,318)**	(₱694,115)	(₱13,470,657)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**30,559,609**	3,320,131	(42,923,427)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**34,381,947**	31,061,816	73,985,243
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱64,941,556**	₱34,381,947	₱31,061,816
NONCASH FINANCIAL INFORMATION				
Reclassification of due to third parties to deposits for future subscription		**₱1,500,000,000**	₱–	₱–
COMPONENTS OF CASH AND CASH EQUIVALENTS				
Cash on hand		**₱58,871**	₱19,596	₱6,000,409
Cash in banks		**62,595,456**	29,706,098	24,185,629
Cash equivalents		**2,287,229**	4,656,253	875,778
		₱64,941,556	₱34,381,947	₱31,061,816

See accompanying Notes to Consolidated Financial Statements.

TKC METALS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

1. **Corporate Information**

General Information

TKC Metals 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	
			2018	2017
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%

* *Through Billions*
** *Has not commenced commercial operations as at December 31, 2018*

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). SEI and JEI are both holding companies and were incorporated in the Philippines.

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

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

Status of Operations

Parent Company
In 2015, the Parent Company stopped the marketing and selling of purlins and GI sheets, its main business activity other than as a holding company. The Parent Company has total comprehensive loss of ₱1,519.0 million, ₱281.1 million and ₱21.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Related parties have continued to finance the necessary financial support not only to the Parent Company but also to the Group to sustain operations and to meet the Group's maturing obligations. In 2018, a stockholder assigned ₱1,500.0 million of his advances to Treasure to foreign investors who, in turn, reassigned these advances to the Parent Company and applied the advances against their subscriptions to the Parent Company's increase in authorized capital stock.

The increase in authorized capital of the Parent Company from ₱1,000.0 million divided into 1,000.0 million shares at ₱1 par value a share, to ₱3,000.0 million divided into 3,000.0 million shares at ₱1 par value a share were approved by the BOD and the stockholders on September 3, 2018 and October 25, 2018, respectively.

Of the increase in authorized capital stock of ₱2,000.0 million divided into 2,000.0 million shares at ₱1 par value a share, 750.0 million shares were subscriptions by the foreign investors for ₱1,500.0 million against their assigned advances. The BOD approved the subscriptions and the debt to equity conversion on September 3, 2018.

The Parent Company applied for the increase in authorized capital stock with the SEC on December 21, 2018. As at May 15, 2019, the SEC's approval on the increase in authorized capital stock is still pending.

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

On May 7, 2019, the Parent Company has entered into an investment agreement with a prospective investor, whereas, the investor has signified its intention to subscribe to the common stock of the Parent Company and make available the necessary funding requirements of the Group. The investment will be used for the diversification of the Group's operations and additional financing to complete the Group's construction and resume commercial operations in Iligan, City.

The Parent Company is considering partnering with several companies from New Zealand, United States of America and United Kingdom for the fabrication and supply of equipment in the Philippines and across Asia. Moreover, the Parent Company is looking into environmental projects (flood control solutions) related to the government's "Build, Build, Build Program".

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

Treasure
As at December 31, 2018, Treasure has not resumed operations. Treasure's total comprehensive loss for the years ended December 31, 2018, 2017 and 2016 amounted to ₱43.3 million, ₱732.7 million and ₱178.2 million, respectively, resulting to a capital deficiency of ₱2,570.5 million and ₱2,527.3 million as at December 31, 2018 and 2017, respectively.

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

Treasure is looking into a new technology for nickel leaching. This chemical process will take only two hours to extract nickel from laterite ores and will result to a nickel recovery rate of 20-50%. Treasure is currently in discussion with a third party to provide the technology, consultancy, installation and supervision of the required equipment; and to supply the patented chemical in the production that will guarantee the quality and consistency of nickel concentrate.

The processing plant will be developed in Iligan City to accommodate future expansion on this new environmentally-friendly nickel-leaching technology. Treasure is also securing all the necessary permits to ensure compliance on environmental law in line with the planned diversification of operation from billets to nickel concentrate.

The Management plans to start the rehabilitation of the plant facilities and installation of the new equipment for nickel concentrate as soon as they generate revenue from nickel leaching.

ZZ Stronghold
ZZ Stronghold has a capital deficiency of ₱1,103.2 million and ₱866.5 million as at December 31, 2018 and 2017, respectively, primarily due to low production and sales volume coupled with low price in the steel market in China. ZZ Stronghold has been intensifying its marketing efforts and improving business opportunities to increase sales and generate improved results to reduce capital deficiency.

In addition, ZZ Stronghold is planning to modernize its plant facilities and to develop its vacant properties to accommodate a new venture which will generate additional income that will help improve its financial condition and results of operations.

ZZ Stronghold has initial discussion with a prospective investor who is in the business of used tire recycling. The Management plans to put up this tire recycling plant whose product will become the raw materials in making new products.

Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 were authorized and approved for issuance by the Board of Directors on May 15, 2019.

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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 measurement 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 consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by 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 Notes 9 and 30 to the consolidated 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 Group adopted effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition, 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 these are held and its 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; recognition of a credit loss should no longer wait for there to be an objective evidence of impairment.

- For hedge accounting, PFRS 9 introduces a substantial overhaul allowing consolidated 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.

The Group applied the requirements of PFRS 9, retrospectively.

The Group has performed an assessment and determined the following impact of PFRS 9 on its financial instruments:

Classification and Measurement. On the date of initial application, January 1, 2018, the Group’s cash and cash equivalents, trade and other receivables, related party balances, refundable deposits on lease contracts (recorded as part of “Other noncurrent assets”) that were classified as loans and receivables under PAS 39 are now classified as financial assets at amortized cost. These financial assets are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest.

The Group has not designated any financial liabilities as at fair value through profit and loss (FVPL). There are no changes in classification for the Group’s financial liabilities.

The application of the classification and measurement requirements under PFRS 9 did not materially affect the carrying amounts of the Group’s financial instruments.

Impairment. The new impairment requirements did not result to additional provision for impairment losses with respect to its receivables because these are mainly exposures from the Group’s related parties that have sufficient liquid assets and have good security credit strength to settle their obligation.

While cash and cash equivalents are subject to the impairment requirements of PFRS 9, the resulting impairment loss is not significant primarily because the deposits and placements are with reputable counterparty banks that possess good credit ratings. For refundable deposits on lease contracts, the Group considered the financial capacity of the lessors to refund the deposits once the lease agreement has been terminated.

Hedging. The Group does not have transactions wherein hedge accounting will apply.

There is no significant impact on the basic and diluted earnings per share as a result of the Group’s adoption of PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and their 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.).

  Based on the Group's assessment, all of the Group's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly the delivery of goods. Thus, the allocation of transaction price to the single performance obligation is not applicable. The Group recognizes revenue as the goods are transferred to the customer at the point of delivery. Accordingly, the adoption of PFRS 15 has no impact on the timing of the Company's revenue recognition.

- Amendments 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.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

The adoption of the foregoing new and amended PFRS did have any material effect on the consolidated financial statements. Additional disclosures will be included in the consolidated financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective
Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

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

- PFRS 16, *Leases* – This standard will replace PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position 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.

  For the Group's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Group will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Group completes the review.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

- Amendments to PAS 23, *Borrowing Costs - Borrowing Costs Eligible for Capitalization* – The amendments are part of the Annual Improvements to PFRS 2015-2017 and clarify that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

Deferred effectivity –

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group, except for PFRS 16, as discussed in the foregoing. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Additional disclosures will be included in the consolidated financial statements, as applicable.

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 interest represents the portion of net results and net assets not held by the Parent Company. They are presented in the consolidated statement 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 statement 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; and

- 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 PFRS 9 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 PFRS 9, 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. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"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 profit or loss. 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. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial asset largely depends on the Group's business model and its contractual cash flow characteristics. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2018 and 2017, the Group does not have financial assets and liabilities at FVPL and debt instruments measured at FVOCI.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. 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. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, 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" account) are classified under this category (see Notes 4, 5, 14 and 11).

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2018 and 2017, 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 (see Notes 12, 13 and 14).

Reclassification

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

Impairment of Financial Assets at Amortized Cost

The Company records an allowance for impairment losses on its financial assets measured at amortized cost based on ECL.

ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables arising from the normal course of business, the Group has applied the simplified approach and has calculated ECL based on the lifetime ECL. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, related party balances and refundable deposits (presented as part of "Other noncurrent assets" account), the Group has calculated ECL based on 12-month ECL since the credit risk has not increased significantly since initial recognition.

For debt instruments measured at amortized cost, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

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

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Inventories
Inventories are valued at lower of cost and net realizable value (NRV). Cost is determined primarily through first-in-first-out method. The cost of finished goods comprises of raw materials, direct labor and related production overheads (based on normal operating capacity). Cost of raw materials includes purchase price and other taxes that are not subsequently recoverable from taxing authorities. The NRV of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. In determining the net realizable value, 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 trade 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 consolidated statement of 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, plant 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. The cost of replacing a component of an item of property, plant 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, plant and equipment have different useful lives, these are accounted for as separate items (major components) of property, plant 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.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

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 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. Construction in progress 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.

Advances to Contractors

Advances to contractors represent funds advanced by the Group to its contractors in relation to its plant expansion projects. Advances to contractors wherein the corresponding services or goods are expected to be performed or delivered beyond one year after the reporting date are classified as noncurrent asset.

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 profit or loss.

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.

Deposits for Future Subscription. Deposits for future subscription represent funds received from existing or potential stockholders to be applied as payment for future issuance of capital stock. Deposits for future subscription are recognized as equity if and only if, all of the following elements set forth by the SEC are present as at end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is BOD approval on the proposed increase in the authorized capital stock;
- There is stockholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability.

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

Other Equity Reserves. Other equity reserves comprise 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, cumulative translation adjustment and adjustments to equity.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Company and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

Revenue is disaggregated by geographical region in the consolidated statement of comprehensive income.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

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 benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs of Goods Sold. Costs of goods sold are 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 Loss per Share
The Group presents basic and diluted loss per share. Basic loss per share is calculated by dividing the loss 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 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 in profit or loss 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 have unfunded, non-contributory 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.

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

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.

<u>Income Tax</u>

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 (RCIT) 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 is 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 geographical 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 consolidated financial statements and accompanying notes. The judgment and estimates used in the consolidated 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:

Assessing Going Concern. The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group will continue in business for the foreseeable future. The Group's related parties, however, have continued to provide the necessary financial support to meet its maturing obligations. As at December 31, 2018 and 2017, due to related parties aggregated ₱2,078.0 million and ₱3,560.3 million, respectively. This enables the Group to timely meet its obligations and sustain its operations. Management has assessed that the Group is still able to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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 ₱5.8 million, ₱5.4 million and ₱5.5 million in 2018, 2017 and 2016, respectively (see Note 23).

Assessing ECL on Financial Assets at Amortized Cost. The Group estimates ECL of trade and other receivables (excluding advances to officers and employees) using provision matrix. The provision rates are based on days past due for groupings of receivables with similar credit risk characteristics and loss patterns. The provision matrix is based on the Group's historical default rates and is adjusted for forward-looking estimates, as appropriate. The Group has no observed default experience from trade receivable. Consequently, the resulting lifetime ECL on trade receivable is considered not significant.

The related party balances are non-interest bearing and collectible on demand. These exposures are considered to be in default when there is evidence that the related party is in significant financial difficulty such that it will have insufficient liquid assets to repay its obligation upon demand. This is assessed based on a number of factors including key liquidity and solvency ratios. Relying on the 90 days past due rebuttable presumption is not considered an appropriate backstop indicator given the lack of contractual payment obligations due throughout the life of the loan. After taking into consideration the related parties' ability to pay depending on the sufficiency of liquid assets and available forward-looking information, the risk of default of the related parties is assessed to be minimal.

For cash and cash equivalents and refundable deposits, the Group applies low credit risk simplification. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The resulting ECL for these financial assets is considered insignificant because the counterparty banks have no history of default and have good credit ratings.

Financial assets at amortized cost are considered as credit-impaired when contractual payments are 90 days past due and the counterparty is unlikely to settle its obligation to the Group, as evidenced by the following, among others:

- Significant financial difficulty or insolvency;
- Breach of financial covenants;
- Probability that the counterparty will enter bankruptcy or other financial reorganization.

Receivables amounting to ₱11.9 million, ₱17.7 million and ₱29.1 million were directly written off by ZZ Stronghold in 2018, 2017 and 2016, respectively (see Note 18).

Trade and other receivables amounted to ₱158.4 million and ₱265.9 million as at December 31, 2018 and 2017, respectively (see Note 5). Due from related parties amounted to ₱40.0 million as at December 31, 2018 and 2017 (see Note 14).

No provision for impairment losses was recognized on the Group's financial assets in 2018, 2017 and 2016.

For other financial assets at amortized cost which comprise of cash and cash equivalents and refundable deposits, the PFRS 9 impairment requirements did not result to significant credit risk primarily because the Group transacts with reputable counterparties that possess good credit ratings.

Determining NRV of Inventories. The Group, in determining the NRV of inventories, considers any adjustments for obsolescence and losses. The amount and timing of recorded expenses for any period would differ if different judgments 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. No impairment loss on inventories was recognized by the Company in 2018 and 2017. As at December 31, 2018 and 2017, inventories carried at the lower of cost and NRV amounted to ₱357.3 million and ₱360.8 million, respectively. Allowance for inventory write-down amounted to ₱149.5 million as at December 31, 2018 and 2017 (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 2018, 2017 and 2016.

Depreciation and amortization are as follows:

	Note	**2018**	2017	2016
Property and equipment	9	**₱39,132,419**	₱34,185,379	₱51,866,330
Leasehold rights	10	**6,786,792**	6,440,038	8,703,029

The carrying amounts of property and equipment and leasehold rights are as follows:

	Note	**2018**	2017
Property and equipment	9	**₱3,365,289,411**	₱3,404,944,583
Leasehold rights	10	**221,681,410**	230,807,985

Assessing 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). No impairment loss on property, plant and equipment was recognized by the Company in 2018. As at December 31, 2018 and 2017, the carrying amount of property, plant and equipment amounted to ₱3,365.3 million and ₱3,404.9 million, respectively (see Note 9).

b. 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 2018, 2017 and 2016, no impairment losses have been recognized for the CWT and input VAT. The carrying amounts of CWT and input VAT aggregated to ₱289.4 million and ₱294.6 million as at December 31, 2018 and 2017, respectively (see Note 7).

c. 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 of 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, 2018 and 2017. Goodwill is presented as part of "Other noncurrent assets" in the consolidated statement of financial position (see Note 11).

No impairment on goodwill was recognized in 2018, 2017 and 2016.

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 statement and include, among others, discount rates and salary increase rates.

Retirement expense amounted to ₱1.1 million, ₱1.3 million and ₱1.0 million in 2018, 2017 and 2016, respectively. The retirement liability amounted to ₱ 8.9 million and ₱ 7.8 million as at December 31, 2018 and 2017, respectively (see Note 20).

Recognizing 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 as at December 31, 2018 and 2017. 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:

	2018	2017
Cash on hand	**₱58,871**	₱19,596
Cash in banks	**62,595,456**	29,706,098
Cash equivalents	**2,287,229**	4,656,253
	₱64,941,556	₱34,381,947

Cash in banks earn 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 ₱199,040, ₱87,916 and ₱124,372 in 2018, 2017 and 2016, respectively (see Note 24).

5. Trade and Other Receivables

This account consists of:

	Note	2018	2017
Trade:			
Third parties		**₱107,427,953**	₱215,058,044
Related parties	14	**47,794,666**	47,794,666
Advances to officers and employees		**2,630,230**	2,468,722
Others		**540,464**	613,760
		₱158,393,313	₱265,935,192

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 ₱11.9 million, ₱17.7 million and ₱29.1 million were directly written off by ZZ Stronghold in 2018, 2017 and 2016, respectively (see Note 18).

6. Inventories

This account consists of:

	2018		2017	
	At Cost	**Lower of Cost and NRV**	At Cost	Lower of Cost and NRV
Raw materials and spare parts	**₱406,026,729**	**₱257,721,274**	₱408,035,248	₱259,729,793
Finished goods	**63,016,230**	**62,984,650**	64,520,940	64,489,360
Factory supplies	**33,126,112**	**33,126,112**	33,174,271	33,174,271
Scrap metals	**4,588,769**	**3,443,173**	4,588,769	3,443,173
	₱506,757,840	**₱357,275,209**	₱510,319,228	₱360,836,597

Allowance for inventory write-down amounted to ₱149.5 million as at December 31, 2018 and 2017. In 2016, Treasure recognized provision for inventory write-down amounting to ₱106.0 million. No impairment loss on inventories was recognized by the Company in 2018 and 2017.

Inventories charged to operations amounted to ₱575.7 million, ₱280.7 million and ₱262.0 million in 2018, 2017 and 2016, respectively (see Note 17).

Inventories held by ZZ Stronghold amounting to ₱150.3 million and ₱121.2 million as at December 31, 2018 and 2017, respectively were pledged as collateral on loans (see Note 13).

7. CWT and Input VAT

This account consists of:

	2018	2017
Input VAT:		
Current	**₱220,947,093**	₱224,144,122
Deferred	**–**	1,381,178
CWT	**68,433,084**	69,049,815
	₱289,380,177	₱294,575,115

8. Other Current Assets

This account consists of:

	Note	2018	2017
Advances to suppliers		**₱58,239,553**	₱24,738,324
Prepayments		**13,421,764**	12,527,197
		71,661,317	37,265,521
Allowance for impairment on advances to suppliers	19	**(214,783)**	(214,783)
		₱71,446,534	₱37,050,738

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 2017, long outstanding advances to suppliers of the Parent Company amounting to ₱214,783 was provided with allowance for impairment (see Note 19).

9. Property, Plant and Equipment

The balances and movements of this account are as follows:

	Note	2018 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		**₱3,788,001,485**	**₱764,564,928**	**₱289,151,682**	**₱16,199,988**	**₱3,741,737**	**₱8,377,839**	**₱4,870,037,659**
Additions		**–**	**1,954,347**	**–**	**50,299**	**–**	**–**	**2,004,646**
Disposals		**–**	**(24,622,608)**	**–**	**–**	**–**	**(2,786,279)**	**(27,408,887)**
Exchange realignment		**(2,292,690)**	**(339,367)**	**(336,546)**	**(10,142)**	**–**	**(4,559)**	**(2,983,304)**
Balances at end of year		**3,785,708,795**	**741,557,300**	**288,815,136**	**16,240,145**	**3,741,737**	**5,587,001**	**4,841,650,114**
Accumulated Depreciation, Amortization and Impairment loss								
Balances at beginning of year		**683,451,047**	**583,621,512**	**170,856,712**	**15,495,410**	**3,741,737**	**7,926,658**	**1,465,093,076**
Depreciation and amortization	22	**–**	**27,246,090**	**11,206,270**	**466,562**	**–**	**213,497**	**39,132,419**
Disposals		**–**	**(24,587,352)**	**–**	**–**	**–**	**(2,786,279)**	**(27,373,631)**
Exchange realignment		**–**	**(314,311)**	**(163,770)**	**(9,180)**	**–**	**(3,900)**	**(491,161)**
Balances at end of year		**683,451,047**	**585,965,939**	**181,899,212**	**15,952,792**	**3,741,737**	**5,349,976**	**1,476,360,703**
Carrying Amount		**₱3,102,257,748**	**₱155,591,361**	**₱106,915,924**	**₱287,353**	**₱–**	**₱237,025**	**₱3,365,289,411**

	Note	2017 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
Disposals		–	(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
Disposals		–	(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

Construction in progress pertains to Treasure's and ZZ Stronghold's plant expansion projects. These projects include the construction of iron ore beneficiating plant, two blast furnace, sintering plant, and 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 as at December 31, 2018 and are subject to final stage of testing.

As discussed in Note 1, ZZ Stronghold has been recurring losses in previous years. The market value of the property, plant and equipment, and leasehold rights of ZZ Stronghold is higher than the recorded net carrying amount of ₱1,881.7 million (including leasehold rights disclosed in Note 10) as at December 31, 2018 as determined by an independent appraiser in its report dated April 26, 2019. The fair value was determined using level 2 in the fair value hierarchy (significant observable inputs).

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.

An impairment loss of ₱683.5 million was recognized in 2017 on Treasure's property, plant and equipment using current depreciated replacement cost as determined by an independent appraiser in its report dated April 10, 2018. The fair value was determined using level 2 in the fair value hierarchy.

As at December 31, 2018, no additional impairment loss on the Company's property, plant and equipment was recognized, as determined by an independent appraiser in its report dated February 8, 2019.

Based on the cost 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.

There was no capitalization of borrowing costs in 2018, 2017 and 2016 because the active development of the plant was stopped.

In 2018, Treasure disposed of its fully depreciated machinery and equipment, and transportation equipment with cost amounting to ₱24.0 million and ₱0.7 million, respectively. The disposal resulted to a gain on sale amounting to ₱40.3 million in 2018 (see Note 24).

In 2017, Treasure wrote off fully depreciated machinery and equipment amounting to ₱3.0 million. Treasure also sold fully depreciated transportation equipment resulting to a gain on sale amounting to ₱2.4 million in 2017 (see Note 24).

ZZ Stronghold recorded a gain (loss) on disposal of transportation equipment amounting to ₱47,291 and (₱39,650) in 2018 and 2017 respectively (see Note 24).

Property, plant and equipment of ZZ Stronghold with carrying amount of ₱1,680.6 million and ₱1,706.3 million as at December 31, 2018 and 2017, respectively, were pledged to secure the loans payable of ZZ Stronghold (see Note 13).

Construction Commitments

The Group has several construction contracts on its plant expansion projects covering mainly the beneficiating plant, blast furnace, sintering plant and billet manufacturing plant.

10. **Leasehold Rights**

The balances and movements of this account are as follows:

	Note	**2018** ZZ Stronghold	Treasure	Total
Cost				
Balances at beginning of year		**₱272,771,004**	**₱46,000,000**	**₱318,771,004**
Exchange realignment		**(25,053,742)**	**–**	**(25,053,742)**
Balances at end of year		**247,717,262**	**46,000,000**	**293,717,262**
Accumulated Amortization				
Balances at beginning of year		**64,349,686**	**23,613,333**	**87,963,019**
Amortization	22	**4,946,792**	**1,840,000**	**6,786,792**
Exchange realignment		**(22,713,959)**	**–**	**(22,713,959)**
Balances at end of year		**46,582,519**	**25,453,333**	**72,035,852**
Carrying Amount		**₱201,134,743**	**₱20,546,667**	**₱221,681,410**

	Note	2017 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

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 ₱ 201.1 million and ₱ 208.4 million as at December 31, 2018 and 2017, respectively, were pledged to secure the loans payable of ZZ Stronghold (see Note 13).

Treasure

In 2005, Treasure (lessee) entered into 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.

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	2018	2017
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**	1,458,608
Others		**4,250,000**	4,250,000
		66,150,165	66,150,165
Allowance for impairment on advances to contractors	19	**46,651,046**	46,651,046
		₱19,499,119	₱19,499,119

Advances to contractors pertain to funds advanced by Treasure to its contractors in relation to its plant expansion projects. These were fully impaired 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).

12. Trade and Other Payables

This account consists of:

	Note	2018	2017
Trade payables:			
Third parties		**₱918,047,495**	₱807,706,679
Related parties	14	**10,148,770**	10,148,770
Accruals for:			
Real property tax		**15,578,305**	14,803,232
Others		**52,707,972**	78,059,107
Salaries payable		**15,615,006**	15,169,845
Statutory payables		**24,890,318**	25,545,083
Others		**6,795,508**	3,713,665
		₱1,043,783,374	₱955,146,381

Trade payables are unsecured, noninterest-bearing and are normally settled throughout the year.

Trade payables also consist of interest-bearing obligations amounting to ₱31.9 million and ₱29.8 million in 2018 and 2017, respectively, with annual interest rate of 6.3%. Interest expense recognized on the obligations amounted to ₱1.9 million, ₱2.0 million and ₱2.0 million in 2018, 2017 and 2016, respectively (see Note 13).

Accruals for others include provision for contingencies to cover claim by third parties.

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:

	2018				
	Original Currency	**Amount of Loan (original currency)**	**Amount of Loan (in Peso)**	**Source of Loan**	**Interest Rate**
TKC	PHP	**328,998,657**	**₱328,998,657**	Local bank	7% to 7.75%
Treasure	PHP	**199,892,361**	**199,892,361**	Local bank	7% to 7.75%
ZZ Stronghold	RMB	**65,800,000**	**502,134,513**	Foreign bank	5.17% to 5.43%
			₱1,031,025,531		

	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	5.16% to 8.10%
			₱1,048,287,715		

As at December 31, 2018 and 2017, certain assets of ZZ Stronghold were pledged as collateral to secure its loans. Leasehold rights with carrying amount of ₱201.1 million and ₱208.4 million, respectively; property, plant and equipment with a carrying amount of ₱1,680.6 million and ₱1,706.3 million, respectively; and inventories amounting to ₱150.3 million and ₱121.2 million were pledged as collateral of loans payable of ₱502.1 million and ₱510.7 million as at December 31, 2018 and 2017, 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 are as follows:

	Note	**2018**	2017	2016
Loans payable		**₱61,537,696**	₱61,877,479	₱55,174,975
Trade payable	12	**1,887,561**	2,022,021	2,010,082
		₱63,425,257	₱63,899,500	₱57,185,057

The changes in liabilities arising from financing activities as at and for the years ended December 31, 2018 and 2017 are as follows:

		2018			
	Note	**Balance at Beginning of year**	**Changes from Financing Cash Flows**	**Exchange Realignment**	**Balance at End of Year**
Loans payable		**₱1,048,287,715**	**₱9,168,881**	**(₱26,431,065)**	**₱1,031,025,531**
Due to related parties	**14**	**3,560,305,233**	**(12,018,928)**	**(1,461,254,818)**	**2,087,031,487**
		₱4,608,592,948	**(₱2,850,047)**	**(₱1,487,685,883)**	**₱3,118,057,018**

		2017			
	Note	Balance at Beginning of year	Changes from Financing Cash Flows	Exchange Realignment	Balance at End of Year
Loans payable		₱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 Receivables
Trade receivables are from sale of inventories and are unsecured, noninterest-bearing, collectible in cash and are generally on a 30 to 90-day credit (see Note 5). No impairment was recognized in 2018, 2017 and 2016.

Transactions and outstanding balance arising from sale of inventories as follows:

	Amount of Transactions		Outstanding Balance	
	2018	2017	**2018**	2017
Under common control	**₱–**	₱–	**₱47,794,666**	₱47,794,666

Trade Payables
Trade 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	
	2018	2017	**2018**	2017
Under common control	**₱–**	₱–	**₱10,148,770**	₱10,148,770

Due from Related Parties
Due from related parties pertain to unsecured, noninterest-bearing advances for working capital requirements. These are normally settled in cash throughout the year. No impairment was recognized in 2018, 2017 and 2016.

Summarized below are the outstanding accounts arising from these transactions.

	Amount of Transactions		Outstanding Balance	
	2018	2017	**2018**	2017
Stockholder	**₱–**	₱–	**₱11,838,673**	₱11,838,673
Under common control	**–**	–	**28,137,862**	28,137,862
			₱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	
	2018	2017	**2018**	2017
Stockholders	**₱1,992,253**	₱24,677,259	**₱1,393,112,875**	₱2,905,917,700
Ultimate Parent	**–**	–	**437,691,362**	437,691,362
Under common control	**39,531,079**	–	**256,227,250**	216,696,171
			₱2,087,031,487	₱3,560,305,233

Treasure has been able to sustain operations mainly because related parties have continued to provide the necessary financial support not only to meet its maturing obligations but also to finance its working capital. On September 14, 2018, a stockholder assigned portion of his advances to Treasure amounting to ₱1,500.0 million to foreign investors. These investors re-assigned the advances to the Parent Company and applied the advances against their subscription to the increase in authorized capital stock of the Parent Company. The debt equity conversion is subject to the approval of the increase in authorized capital stock which is still pending with the SEC (see Note 14).

Due to the capital deficiency position of Treasure from continuing losses from operations, an allowance of ₱1,500.0 million was recognized on the due from Treasure, arising from the assignment, in the Parent Company's separate financial statements.

The intercompany advances and the recognized allowance for impairment in the books of the Parent Company and Treasure were eliminated in full in the consolidated financial statements (see Note 28).

Summarized below are the receivables from related parties which are eliminated during the consolidation.

	Nature of transactions	**2018**	2017
Subsidiaries:			
Treasure:			
Due from related parties	Advances for working capital	**₱2,504,981,244**	₱1,018,434,744
Trade receivables	Sale of inventories	**2,176,670**	2,176,670
Billions -			
Due from related parties	Advances for working capital	**323,025,817**	301,233,653
Campanilla -			
Due from related parties	Advances for working capital	**1,890,529**	751,146
		₱2,832,074,260	₱1,322,596,213

Compensation of key management personnel of the Group follows:

	2018	2017	2016
Short-term benefits	**₱5,889,402**	₱8,004,318	₱7,809,484
Post-employment benefits	**161,549**	140,328	411,561
	₱6,050,951	₱8,144,646	₱8,221,045

15. **Equity**

Capital Stock
Details of the common stock as at December 31, 2018 and 2017 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 the 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	

Deposits for Future Subscription
On September 3, 2018, the BOD approved the increase in authorized capital of TKC from ₱1,000.0 million divided into 1,000.0 million shares at ₱1 par value per share, to ₱3,000.0 million divided into 3,000.0 million shares at ₱1 par value a share.

Of the increase in authorized capital stock of ₱2,000.0 million divided into 2,000.0 million shares at ₱1 par value a share, 750.0 million shares were subscribed by foreign investors for ₱1,500.0 million. The subscriptions were paid in full by converting their assigned advances from Treasure to the Parent Company (see Note 14). On September 3, 2018, the BOD approved the subscription and debt to equity conversion.

On October 25, 2018, the increase in authorized capital stock was approved by the stockholders. The Parent Company applied for the increase in authorized capital stock with the SEC on December 21, 2018. As at May 15, 2019, the SEC's approval on the increase in authorized capital stock is still pending.

The advances for debt to equity conversion was classified as "Deposits for future subscription" under "Equity (Capital Deficiency)" in the consolidated statements of financial position.

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 in 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	2018	2017	2016
Direct materials	6	**₱575,715,108**	₱280,661,887	₱261,980,403
Manufacturing supplies		**51,947,486**	37,787,997	4,015,821
Depreciation and amortization	22	**16,986,153**	15,908,125	34,064,086
Salaries, wages and other employee benefits	21	**16,183,313**	5,653,597	6,188,694
Indirect labor		**10,908,517**	47,421	4,324,471
Utilities and rent		**8,055,102**	17,457	3,552,416
Others		**7,594,401**	1,164,146	14,780,516
		₱687,390,080	₱341,240,630	₱328,906,407

18. Operating Expenses

This account consists of:

	Note	2018	2017	2016
Salaries, wages and other employee benefits	21	**₱48,131,797**	₱45,308,745	₱51,900,698
Docking and wharfage fee		**35,642,158**	–	–
Depreciation and amortization	22	**27,971,274**	24,100,074	22,173,976
Taxes and licenses		**17,073,666**	28,239,806	13,787,715
Freight and handling		**15,755,612**	14,056,624	8,580,982
Receivables write-off	5	**11,866,475**	17,701,158	29,142,842
Utilities and rental		**11,017,850**	10,589,769	7,730,126
Outside services		**9,401,619**	7,129,312	7,131,448
Professional fees		**4,278,854**	18,845,941	2,141,721
Repairs and maintenance		**3,670,854**	8,128,667	11,870,839
Representation		**2,619,716**	1,707,567	2,210,315
Travel and transportation		**1,226,601**	2,052,428	2,381,522
Office supplies		**460,393**	230,354	190,405
Insurance		**7,381**	–	54,346
Commission		**–**	7,016	4,890
Others		**5,433,938**	5,759,874	9,512,742
		₱194,558,188	₱183,857,335	₱168,814,567

Others mainly include ZZ Stronghold's registration, bank charges and postages among others.

19. Provision for Impairment Loss

This account consists of provision for impairment loss on:

	Note	**2018**	2017	2016
Property, plant 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, 2018 and 2017, 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.

The latest actuarial valuation report obtained by the Parent Company and Treasure was for the year ended December 31, 2016 and December 31, 2017, respectively, using the projected unit credit method.

The components of retirement expense 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):

	2018	2017	2016
Current service cost	**₱699,099**	₱851,887	₱558,562
Interest cost	**443,959**	429,666	418,906
	₱1,143,058	₱1,281,553	₱977,468

Changes in the present value of retirement liability (PVRL) are as follows:

	2018	2017
Balance at beginning of year	**₱7,763,612**	₱9,107,262
Current service cost	**699,099**	851,887
Interest cost	**443,959**	429,666
Remeasurement gain:		
Experience adjustments	**–**	(1,817,612)
Change in assumptions	**–**	(807,591)
Balance at end of year	**₱8,906,670**	₱7,763,612

Movements in the retirement liability are as follows:

	2018	2017
Balance at beginning of year	**₱7,763,612**	₱9,107,262
Retirement expense during the year	**1,143,058**	1,281,553
Remeasurement gain recognized in OCI	**–**	(2,625,203)
Balance at end of year	**₱8,906,670**	₱7,763,612

Cumulative amount of remeasurement (loss) gain recognized in OCI are as follows:

	2018	2017	2016
Balance at beginning of year	**₱2,298,818**	(₱326,385)	(₱648,356)
Remeasurement gain, net of deferred tax	**–**	2,625,203	321,971
Balance at end of year	**₱2,298,818**	₱2,298,818	(₱326,385)

The principal actuarial assumptions used to determine retirement benefit for 2018 and 2017 are as follows:

	2018		2017	
	Treasure	**TKC**	Treasure	TKC
Discount rate	**6.72%**	**4.25%**	5.71%	4.38%
Salary increase rate	**5.00%**	**2.00%**	5.00%	2.00%

Sensitivity analyses on defined benefit liability are as follows:

	Basis Points	**2018**	2017
Discount rate	+1.00%	**(₱107,317)**	(₱160,635)
	-1.00%	**123,627**	184,596
Salary increase rate	+1.00%	**75,522**	219,642
	-1.00%	**(75,522)**	(199,074)

The sensitivity analyses 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, 2018, maturity analysis of undiscounted benefit payments are as follows:

Plan Year	
Less than one year	₱6,180,670
More than one to five years	927,058
More than five to 10 years	729,987
More than 10 to 15 years	2,529,637
More than 15 to 20 years	519,806
More than 20 years	2,507,526
	₱13,394,684

As at December 31, 2018, the average duration of retirement liability at the end of the reporting period is 13 years and 10.5 years for the Parent Company and Treasure, respectively.

21. Salaries, Wages and Other Employee Benefits

This account consists of:

	Note	2018	2017	2016
Salaries and wages		**₱63,100,052**	₱49,608,789	₱52,435,629
Retirement benefits	20	**1,143,058**	1,281,553	977,468
Other employee benefits		**72,000**	72,000	4,676,295
		₱64,315,110	₱50,962,342	₱58,089,392

Salaries, wages and other employee benefits are classified as follows:

	Note	2018	2017	2016
Costs of goods sold	17	**₱16,183,313**	₱5,653,597	₱6,188,694
Operating expenses	18	**48,131,797**	45,308,745	51,900,698
		₱64,315,110	₱50,962,342	₱58,089,392

22. Depreciation and Amortization

Details of depreciation and amortization follows:

	Note	2018	2017	2016
Property, plant and equipment	9	**₱39,132,419**	₱34,185,379	₱51,866,330
Leasehold rights	10	**6,786,792**	6,440,038	8,703,029
		₱45,919,211	₱40,625,417	₱60,569,359

Depreciation and amortization are distributed as follows:

	Note	2018	2017	2016
Costs of goods sold	17	**₱16,986,153**	₱15,908,125	₱34,064,086
Operating expenses	18	**27,971,274**	24,100,074	22,173,976
Finished goods inventories		**961,784**	617,218	4,331,297
		₱45,919,211	₱40,625,417	₱60,569,359

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 5% beginning on the third year of the lease term.

Rental expense included in the "Utilities and rental" under "Operating expenses" account amounted to ₱5.8 million, ₱5.4 million and ₱5.5 million in 2018, 2017 and 2016, respectively.

Future minimum lease payments under noncancellable operating leases as at December 31, 2018 are as follows:

Within one year	₱4,132,721
After one year but not more than five years	–
	₱4,132,721

24. **Other Income** - Net

This account consists of:

	Note	**2018**	2017	2016
Gain on sale of property and equipment	9	**₱40,324,694**	₱2,406,779	₱–
Foreign exchange gain (loss)		**15,700,477**	12,654,988	(22,235,725)
Gain (loss) on sale of raw materials		**10,627,186**	19,658,274	(3,355,054)
Interest income	4	**199,040**	87,916	124,372
Rental income		**–**	7,395,328	8,160,798
Administrative fee		**–**	–	13,602,586
Wharfage income		**–**	–	19,000,000
Others		**111,392**	–	1,162,796
		₱66,962,789	₱42,203,285	₱16,459,773

Administrative fee refers to the consideration received from third parties in return for the assignment of its power allocation from National Power Corporation Iligan, City.

Wharfage income pertains to the lease of Treasure's wharf to a third party.

25. **Income Tax**

The components of provision for (benefit from) income tax as reported in the consolidated statements of comprehensive income are as follows:

	2018	2017	2016
Reported in Profit or Loss			
Current income tax - MCIT	**₱1,018,105**	₱603,793	₱661,657
Deferred tax	**865**	(6,872,749)	–
	₱1,018,970	(₱6,268,956)	₱661,657
Reported in OCI			
Deferred tax 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 2018, 2017 and 2016 because there were no revenue derived yet from the registered activities.

In 2018, 2017 and 2016, 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 2018, 2017 and 2016, ZZ Stronghold is in a net taxable loss position.

Campanilla has no current income tax in 2018, 2017 and 2016 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, 2018 and 2017 because management has assessed that the Group may not have sufficient future taxable profit against which the deferred tax assets can be utilized.

	2018	2017
Allowance for impairment loss on property, plant and equipment	**₱198,268,519**	₱198,268,519
NOLCO	**68,509,666**	69,173,802
Allowance for inventory write-down	**44,844,789**	44,844,789
Allowance for impairment losses on advances to contractors and suppliers	**14,059,749**	14,059,749
Retirement liability	**2,672,001**	2,329,084
Excess of MCIT over RCIT	**2,283,555**	1,919,893
	₱330,638,279	₱330,595,836

As at December 31, 2018 and 2017, 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:

	2018	2017
Capitalized borrowing cost	**₱15,195,950**	₱15,195,950
Prepaid rent	**31,838**	31,838
Unrealized foreign exchange gain	**1,060**	195
	₱15,228,848	₱15,227,983

As at December 31, 2018, 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
2018	₱–	₱35,135,781	₱–	₱35,135,781	2021
2017	32,427,822	–	–	32,427,822	2020
2016	34,393,462	–	–	34,393,462	2019
2015	46,912,547	–	46,912,547	–	2018
	₱113,733,831	₱35,135,781	₱46,912,547	₱101,957,065	

Treasure

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2018	₱–	₱41,311,916	₱–	₱41,311,916	2021
2017	56,811,135	–	–	56,811,135	2020
2016	23,727,697	–	–	23,727,697	2019
2015	32,408,687	–	32,408,687	–	2018
	₱112,947,519	₱41,311,916	₱32,408,687	₱121,850,748	

Campanilla

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2018	₱–	₱714,166	₱–	₱714,166	2023
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
	₱3,897,989	₱714,166	₱54,416	₱4,557,739	

As at December 31, 2018, details of the Parent Company and Treasure's MCIT follows:

Parent Company

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
	₱165,353	₱–	₱–	₱165,353	

Treasure

Year Incurred	Balance at Beginning of Year	Additions	Expired	Balance at End of Year	Year of Expiration
2018	₱–	₱1,018,105	₱–	₱1,018,105	2021
2017	448,045	–	–	448,045	2020
2016	652,052	–	–	652,052	2019
2015	654,443	–	654,443	–	2018
	₱1,754,540	₱1,018,105	₱654,443	₱2,118,202	

The reconciliation between the income tax benefit (expense) based on statutory tax rate and effective tax rate on loss before income tax follows:

	2018	2017	2016
At statutory tax rate	**30.00%**	30.00%	30.00%
Change in unrecognized deferred tax assets	**(0.24)**	(22.33)	15.55
Tax effects of:			
Expired NOLCO and MCIT	**(17.18)**	(3.94)	(30.85)
Nondeductible expense	**(13.51)**	(2.92)	(14.54)
Interest income subjected to final tax	**0.01**	0.01	0.01
Remeasurement gain on retirement liability	**–**	(0.09)	–
At effective tax rate	**(0.92%)**	0.73%	0.17%

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:

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company (a)	**₱136,607,618**	₱838,241,638	₱397,238,827
Weighted average number of shares outstanding (b)	**940,000,000**	940,000,000	940,000,000
Loss per share (a/b)	**₱0.15**	₱0.89	₱0.42

As at December 31, 2018, 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 follow:

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 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 ₱736.0 million arising from sales disaggregated by geographical region.

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:

	2018			
	Philippines		**China**	
	TKC	**Treasure**	**ZZ Stronghold**	**Total**
Results of operations:				
Revenues	**₱–**	**₱–**	**₱736,032,007**	**₱736,032,007**
Cost of goods sold	**–**	**–**	**687,390,080**	**687,390,080**
Gross income	**–**	**–**	**48,641,927**	**48,641,927**
Impairment loss	**(1,500,000,000)**	**–**	**–**	**(1,500,000,000)**
Operating expenses	**(20,023,149)**	**(77,382,266)**	**(96,438,607)**	**(193,844,022)**
Interest expense	**(15,830,794)**	**(15,949,413)**	**(31,645,050)**	**(63,425,257)**
Interest income	**2,023**	**24,214**	**172,768**	**199,005**
Other income	**21,795,232**	**50,908,123**	**15,852,558**	**88,555,913**
Loss before income tax	**(1,514,056,688)**	**(42,399,342)**	**(63,416,404)**	**(1,619,872,434)**
Income tax expense	**(4,910,153)**	**(1,018,970)**	**–**	**(5,929,123)**
Segment net loss	**(₱1,518,966,841)**	**(₱43,418,312)**	**(₱63,416,404)**	**(₱1,625,801,557)**
Segment assets	**₱3,200,188,323**	**₱2,192,502,001**	**₱2,258,892,027**	**₱7,651,582,351**
Segment liabilities	**₱982,948,633**	**₱4,763,198,034**	**₱3,362,116,246**	**₱9,108,262,913**
Capital expenditures	**₱–**	**₱50,299**	**₱1,954,347**	**₱2,004,646**
Depreciation and amortization	**₱28,029**	**₱13,939,729**	**₱25,164,661**	**₱39,132,419**

	2017			
	Philippines		China	
	TKC	Treasure	ZZ Stronghold	Total
Results of operations:				
Revenues	₱351,491	₱–	₱363,237,852	₱363,589,343
Cost of goods sold	607,170	–	340,633,460	341,240,630
Gross income (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:				
Revenues	₱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)
Provision for income tax	(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

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

	2018	2017
Assets of all reportable segments	**₱7,651,582,351**	₱7,742,228,886
Intercompany eliminations	**(3,063,841,374)**	(3,054,363,327)
Assets of nonreportable segment	**142,287**	142,252
Group assets	**₱4,587,883,264**	₱4,688,007,811

Reconciliation of Liabilities

	2018	2017
Liabilities of all reportable segments	**₱9,108,262,913**	₱8,899,846,239
Intercompany eliminations	**(4,925,521,525)**	(3,315,635,671)
Liabilities of nonreportable segment	**3,234,522**	2,520,356
Group liabilities	**₱4,185,975,910**	₱5,586,730,924

Reconciliation of Loss

	2018	2017	2016
Net loss of all reportable segments	**₱1,625,801,557**	₱1,099,969,784	₱419,310,577
Intercompany eliminations	**(1,483,117,989)**	(239,981,967)	–
Net loss of nonreportable segment	**714,131**	613,894	47,042
Group net loss	**₱143,397,699**	₱860,601,711	₱419,357,619

The following information relate to geographical segments:

Revenues from External Customers

	2018	2017	2016
China	**₱736,032,007**	₱363,237,852	₱271,952,345
Philippines	**–**	351,491	428,933
	₱736,032,007	₱363,589,343	₱272,381,278

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

	2018	2017
Philippines:		
Property, plant and equipment	**₱1,684,719,380**	₱1,698,636,839
Leasehold rights	**20,546,667**	22,386,667
Others	**10,414,321**	7,695,713
	1,715,680,368	1,728,719,219
China:		
Property, plant and equipment	**1,680,570,031**	1,706,307,744
Leasehold rights	**201,134,743**	208,421,318
Others	**11,803,406**	23,335,492
	1,893,508,180	1,938,064,554
	₱3,609,188,548	₱3,666,783,773

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, 2018 and 2017, 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:

	2018	
	PHP	**RMB**
Financial Assets at Amortized Cost:		
Cash and cash equivalents	**61,247,345**	**8,025,888**
Trade and other receivables	**96,096,097**	**12,592,482**
Total Financial Assets	**157,343,442**	**20,618,370**
Financial Liabilities at Amortized Cost:		
Trade and other payables	**455,189,530**	**59,648,302**
Loans payable	**502,134,513**	**65,800,000**
Total Financial Liabilities	**957,324,043**	**125,448,302**
Net Financial Liabilities	**(799,980,601)**	**(104,829,932)**

	2017	
	PHP	RMB
Financial Assets at Amortized Cost:		
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 at Amortized Cost:		
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)

For purposes of restating the outstanding balances of the Group's foreign currency-denominated financial assets and liabilities as at December 31, 2018 and 2017, the exchange rate applied were ₱7.63 and ₱7.64 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, 2018 and 2017 (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, 2018	+1.87	**(₱196,031,973)**
	-1.87	**196,031,973**
December 31, 2017	+1.21	(₱103,074,787)
	-1.21	103,074,787

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, 2018 and 2017, 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 Group does not have any repricing financial assets and financial liabilities as at December 31, 2018 and 2017.

Credit Risk

Credit risk is a risk due to uncertainty in counterparty's ability to meet its obligations. When counterparty defaults, the maximum exposure is equal to the carrying amount of the related financial asset. The Company's credit risk arises principally from cash in banks and cash equivalents, trade and other receivables (excluding advances to officers and employees), due from related parties and refundable deposits.

The credit quality of the financial assets is managed by the Group using internal credit quality ratings. High grade accounts consist of financial assets from counterparties with good financial condition and with relatively low defaults. Financial assets having risks of default but are still collectible are considered standard grade accounts. Financial assets that are still collectible but require persistent effort from the Group to collect are considered substandard grade accounts.

The table below shows the credit quality per class of financial asset as at December 31, 2018 and 2017.

	December 31, 2018					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Past Due but not Impaired**	**Credit Impaired**	**Total**
Financial Assets at Amortized Cost:						
Cash and cash equivalents*	**₱64,882,685**	**₱–**	**₱–**	**₱–**	**₱–**	**₱64,882,685**
Trade and other receivables**	**–**	**155,763,083**	**–**	**–**	**–**	**155,763,083**
Due from related parties	**–**	**39,976,535**	**–**	**–**	**–**	**39,976,535**
Refundable deposits	**–**	**1,987,105**	**–**	**–**	**–**	**1,987,105**
	₱64,882,685	**₱197,726,723**	**₱–**	**₱–**	**₱–**	**₱262,609,408**

**Excluding cash on hand.*
***Excluding nonfinancial receivables.*

	December 31, 2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Past Due but not Impaired	Credit Impaired	Total
Financial Assets at Amortized Cost:						
Cash and cash equivalents*	₱34,362,351	₱–	₱–	₱–	₱–	₱34,362,351
Trade and other receivables**	–	263,466,470	–	–	–	263,466,470
Due from related parties	–	39,976,535	–	–	–	39,976,535
Refundable deposits	–	1,987,105	–	–	–	1,987,105
	₱34,362,351	₱305,430,110	₱–	₱–	₱–	₱339,792,461

**Excluding cash on hand.*
***Excluding nonfinancial receivables.*

The credit quality of the financial assets is managed by the Group using internal credit quality ratings. High grade consists of financial assets from counterparties with good financial condition and with relatively low defaults. Financial assets having risks of default but are still collectible are considered as standard grade accounts. Past due but not impaired are those with history of frequent default nevertheless the amount due are still collectible. Credit impaired are those that are long outstanding or those that have been provided with an allowance for impairment.

Cash in banks and cash equivalents are considered high grade as these pertain to deposits and placements in reputable banks with prime ratings. The Group considers that these financial assets have low credit risk based on the external ratings of the counterparties.

The Group trades mainly with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group only deals with financial institutions duly evaluated and approved by the BOD.

The Group grants advances to its related parties after the BOD has assessed the Group's strategies for managing credits and viewed that they remain appropriate for the Group's circumstances. The Group considered the available liquid assets and the credit strength of the security of the related parties. In addition, these advances are monitored on an ongoing basis with the result that the Group's exposure to account discrepancies is not significant.

For refundable deposits, the Group considered the financial capacity of the lessors to refund the deposits once the lease agreement has been terminated.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatch of the maturities of financial assets and financial liabilities. 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; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread in refinancing maturities.

The table below shows the maturity profile of the Group's financial liabilities as at December 31, 2018 and 2017 based on contractual undiscounted payments:

	2018					
	On Demand	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Liabilities at Amortized Cost:						
Trade and other payables*	**₱1,003,314,751**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,003,314,751**
Loans payable**	**–**	**–**	**199,892,361**	**849,860,121**	**–**	**1,049,752,482**
Due to related parties	**2,087,031,487**	**–**	**–**	**–**	**–**	**2,087,031,487**
	₱3,090,346,238	**₱–**	**₱199,892,361**	**₱849,860,121**	**₱–**	**₱4,140,098,720**

**Excluding nonfinancial liabilities.*
***Including future interest payments.*

	2017					
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Financial Liabilities at Amortized Cost:						
Trade and other payables*	₱914,798,066	₱–	₱–	₱–	₱–	₱914,798,066
Loans payable**	–	–	200,000,000	911,211,849	–	1,111,211,849
Due to related parties	3,560,305,233	–	–	–	–	3,560,305,233
	₱4,475,103,299	₱–	₱200,000,000	₱911,211,849	₱–	₱5,586,315,148

**Excluding nonfinancial liabilities.*
***Including future interest payments.*

30. **Fair Value Measurement**

The following table presents the fair values of the financial assets 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)**
Financial Assets at Amortized Cost -				
Refundable deposits				
2017	₱1,260,000	₱–	₱1,183,035	₱–

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 7.0% and 3.8% in 2018 and 2017, respectively.

The carrying amounts of the following financial assets and liabilities of the Group approximate their fair values as at December 31, 2018 and 2017 due to the short-term nature of these transactions:

	2018	2017
Financial Assets at Amortized Cost		
Cash and cash equivalents	**₱64,941,556**	₱34,381,947
Trade and other receivables*	**155,763,083**	263,466,470
Due from related parties	**39,976,535**	39,976,535
Refundable deposits	**1,260,000**	–
	₱261,941,174	₱337,824,952
Financial Liabilities at Amortized Cost		
Trade and other payables**	**₱1,003,314,751**	₱914,798,066
Due to related parties	**2,087,031,487**	3,560,305,233
Loans payable	**1,031,025,531**	1,048,287,715
	₱4,121,371,769	₱5,523,391,014

**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.

31. **Capital Management**

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 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 2018 and 2017.

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.

The Group considers the following as capital employed:

	2018	2017
Capital stock	**₱940,000,000**	₱940,000,000
Additional paid-in capital	**1,983,047,906**	1,983,047,906
Deposits for future subscription	**1,500,000,000**	–
	₱4,423,047,906	₱2,923,047,906

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 December 31, 2018 and 2017; and for the years ended December 31, 2018, 2017 and 2016, on which we have rendered our report dated May 15, 2019.

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 August 15, 2021
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. 7334331
Issued January 3, 2019, Makati City

May 15, 2019
Makati City, Metro Manila

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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 Company) and Subsidiaries (the Group) as at December 31, 2018 and 2017; and for the years ended December 31, 2018, 2017 and 2016 and have issued our report thereon dated May 15, 2019. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Supplementary Schedules for submission to the Securities and Exchange Commission are the responsibility of the Group's management. These supplementary schedules include the following:

- Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration as at December 31, 2018
- Schedule of Adoption of Effective Accounting Standards and Interpretations as at December 31, 2018
- Schedules Required by Annex 68-E of Securities Regulation Code Rule 68, as amended, as at December 31, 2018
- Map of Conglomerate as at December 31, 2018
- Schedule of Financial Soundness Indicators as at December 31, 2018, 2017 and 2016

The supplementary schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic 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 August 15, 2021
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. 7334331
Issued January 3, 2019, Makati City

May 15, 2019
Makati City, Metro Manila

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ADOPTION OF EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2018

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			✓
PFRS Practice Statement 2: Making Materiality Judgments	✓		

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			✓
	Amendments to PFRS 1: First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
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	✓		
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	Title	Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
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			✓
PFRS 15	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15: Clarifications to PFRS 15	✓		

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 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	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 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			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	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 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			✓
	Amendments to PAS 40: Transfers of Investment 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 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			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓

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-32	Intangible Assets - Web Site Costs			✓

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2018, 2017 AND 2016

Below is a schedule showing financial soundness indicators of the Group for the years 2018, 2017 and 2016.

	2018	2017	2016
CURRENT/LIQUIDITY RATIO			
Current assets	**₱981,413,324**	₱1,032,756,124	₱987,241,754
Current liabilities	**4,161,840,392**	5,563,739,329	5,383,234,951
Current Ratio	**0.24:1**	0.19:1	0.18:1
SOLVENCY RATIO			
Net loss before depreciation and amortization	**(₱96,516,704)**	(₱820,593,512)	(₱363,119,557)
Total liabilities	**4,185,975,910**	5,586,730,924	5,414,442,945
Solvency Ratio	**(0.02):1**	(0.15):1	(0.07):1
DEBT-TO-EQUITY RATIO			
Total liabilities	**₱4,185,975,910**	₱5,586,730,924	₱5,414,442,945
Total equity (capital deficiency)	**401,907,354**	(898,723,113)	(170,323,686)
Debt-to-Equity Ratio	**10.42:1**	(6.22):1	(31.79):1
ASSET-TO-EQUITY RATIO			
Total assets	**₱4,587,883,264**	₱4,688,007,811	₱5,244,119,259
Total equity (capital deficiency)	**401,907,354**	(898,723,113)	(170,323,686)
Asset-to-Equity Ratio	**11.42:1**	(5.22):1	(30.79):1
INTEREST-COVERAGE RATIO			
Loss before interest and taxes	**(₱78,953,472)**	(₱802,971,167)	(₱361,510,905)
Interest expense	**63,425,257**	63,899,500	57,185,057
Interest-Coverage Ratio	**(1.24):1**	(12.57):1	(6.32):1
PROFITABILITY RATIO			
Net loss	**(₱143,397,699)**	(₱860,601,711)	(₱419,357,619)
Average equity	**(248,407,880)**	(534,523,400)	(85,161,843)
Return on Equity	**0.58:1**	1.61:1	4.92:1

TKC METALS CORPORATION

SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2018

Unappropriated retained earnings (deficit), beginning	(₱687,338,222)
Adjustments:	
“Day 1” loss on loan receivable	28,131,374
Accretion of interest on long-term loan receivable	(4,938,243)
Unrealized foreign exchange gain	(1,623,663)
Unappropriated retained earnings (deficit), as adjusted, beginning	(665,768,754)
Net loss based on the face of separate audited financial statements	(1,518,966,841)
Less: Non-actual/unrealized income net of tax	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(16,364,106)
Accretion of interest on long-term loan receivable	(5,428,058)
Net loss actually earned/realized during the year	(1,540,759,005)
Unappropriated retained earnings (deficit), as adjusted, ending	(₱2,206,527,759)

TKC METALS CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES AS REQUIRED BY PART II of SRC RULE 68 AS AMENDED
DECEMBER 31, 2018

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**The Group's equity investment designated at fair value through other comprehensive income does not exceed five percent (5%) of the total current assets. There are no financial assets measured at fair value through profit or loss, fair value though other comprehensive income and held-to-maturity investments.*

***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.*

***** Total indebtedness to related parties does not exceed five percent (5%) of total assets.*

****** No guarantees of securities of other issuers.*

TKC METALS CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

			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	1,018,434,744	1,500,000,000	13,453,500	–	2,504,981,244	–	–	2,504,981,244
Billions Steel International Limited – Subsidiary								
Due from related parties (including long-term loan receivable)	301,233,653	–	–	–	21,792,164*	188,761,726	134,264,091	323,025,817
Campanilla Mineral Resources, Inc. – Subsidiary								
Due from related parties	751,146	1,139,383	–	–	–	1,890,529	–	1,890,529
	₱1,322,596,213	₱1,501,139,383	₱13,453,500	₱–	₱21,792,164	₱190,652,255	₱134,264,091	₱2,832,074,260

*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, 2018

			Deduction			
Description	***Beginning balance***	***Additions at cost***	***Charged to cost and expenses***	***Charged to other accounts***	***Other changes***	***Ending balance***
Leasehold Rights	₱230,807,985	₱–	(₱6,786,792)	₱–	(₱2,339,783)*	₱221,681,410

*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, 2018

				Number of shares held by		
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*	*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 BETWEEN AND AMONG THE COMPANY AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES OR CO-SUBSIDIARIES, AND ASSOCIATES

DECEMBER 31, 2018