# IMPORTANT NOTICE

THIS PRELIMINARY PROSPECTUS ("**PROSPECTUS**") IS BEING DISPLAYED ON THIS WEBSITE TO MAKE THIS PROSPECTUS ACCESSIBLE TO INVESTORS IN THE PHILIPPINES AND IS TO BE VIEWED EXCLUSIVELY WITHIN THE PHILIPPINES.

THE PHILIPPINE STOCK EXCHANGE, INC. (THE "**PSE**") ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF STATEMENTS MADE, OR THE OPINIONS OR REPORTS EXPRESSED IN THIS PROSPECTUS. THE PSE MAKES NO REPRESENTATION AS TO THE COMPLETENESS OF THIS PROSPECTUS AND DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM OR IN RELIANCE, IN FULL OR IN PART, OF THE CONTENTS OF THIS PROSPECTUS.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

The offering information on this website is intended to be available only to Philippine and non-Philippine citizens residing in the Philippines or corporations or juridical entities organized and existing under Philippine law and is not intended for distribution outside the Philippines.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This Prospectus is being made available in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Company nor any of the Company's affiliates and advisors accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Prospectus and the information contained herein are subject to completion or amendment without notice. The Offer Shares may not be sold nor may an offer to buy be accepted prior to the time that the Prospectus is issued in final form. Under no circumstances shall this Prospectus constitute an offer to sell or a solicitation of an offer to buy any Offer Shares nor shall there be any offer, solicitation or sale of the Offer Shares in any jurisdiction where such offer or sale is not permitted.

THIS PRELIMINARY PROSPECTUS AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO COMPLETION OR AMENDMENT WITHOUT NOTICE. THE OFFER SHARES MAY NOT BE SOLD NOR MAY AN OFFER TO BUY BE ACCEPTED PRIOR TO THE TIME THAT THE PRELIMINARY PROSPECTUS IS ISSUED IN FINAL FORM. UNDER NO CIRCUMSTANCES SHALL THIS PRELIMINARY PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY OFFER SHARES NOR SHALL THERE BE ANY OFFER, SOLICITATION OR SALE OF THE OFFER SHARES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH JURISDICTION.

# STENIEL MANUFACTURING CORPORATION

(incorporated in the Republic of the Philippines)

Follow-On Public Offering of up to
Up to **157,647,919** Primary Common Shares

Indicative Offer Price from **Php1.80 up to Php 2.00** per Common Share

To be listed and traded on **the Main Board of**
The Philippine Stock Exchange, Inc.

Issue Manager and Sole Underwriter

INVESTMENT & CAPITAL CORPORATION OF THE PHILIPPINES

Selling Agents

Trading Participants of The Philippine Stock Exchange, Inc.

The date of this Preliminary Prospectus is [●].

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**STENIEL MANUFACTURING CORPORATION**
Gateway Business Park, Brgy. Javalera, General Trias, Cavite
Metro Manila, Philippines
Website: https://www.steniel.com.ph/
Email: stn@steniel.com.ph

This Preliminary Prospectus ("**Prospectus**") relates to the offer and sale of up to 157,647,919 common shares (the "**Offer Shares**"), each with a par value of Php 1.00 per share (the "**Shares**", or the "**Common Shares**"), of Steniel Manufacturing Corporation, a corporation organized under Philippine law (the "**Company**", the "**Issuer**", or "**STN**"). The Offer Shares shall consist of up to 157,647,919 primary common shares to be issued and offered by the Company out of its authorized capital stock by way of a primary offer. The offer of the Offer Shares is referred to herein as the "**Offer**."

Steniel Manufacturing Corporation was incorporated on September 13, 1963 in the Philippines. Its primary purpose is to maintain, conduct and manage the business of manufacturing, producing, packing, processing, packaging, refining, purchasing, importing, exporting, selling and dealing in merchandise, goods, articles and wares of any and all kinds and description, including but not limited to pulp paper, and any and all kinds of pulp and paper products, glass, plastics, candies, confectioneries, cocoa, cocoa butter, chocolate and chocolate products, fish, seafoods and other foodstuffs, tin and tin can, aluminum products, paper board and corrugated carton containers, cartons, printing, lithography and all other allied products and processes and accordingly, to acquire such materials, ingredients, chemicals and compounds, and machineries as may be needed in such manufacture, processing and production of abovementioned.

As of the date of this Prospectus, the Company has an authorized capital stock of Two Billion Philippine Pesos (Php2,000,000,000.00) divided into 2,000,000,000 common shares with a par value of Php1.00 per share, of which 1,418,812,081 Common Shares are issued and outstanding. Upon completion of the Offer, a total of up to 1,576,460,000 common shares will be issued and outstanding, with the Offer Shares representing up to 10.0% of the issued and outstanding capital stock of the Company, post Offer.

The Offer Shares will be offered at a price range from Php1.80 to Php2.00 per Offer Share (the "**Offer Price**"). The determination of the Offer Price is further discussed in the section entitled "Determination of the Offer Price" of this Prospectus and is based on a book-building process and discussions between the Company and the Issue Manager and Sole Underwriter of the Offer, Investment & Capital Corporation of the Philippines ("**ICCP**", or the "**Issue Manager and Sole Underwriter**").

The Common Shares will be listed and traded on the Main Board of The Philippine Stock Exchange, Inc. (the "**PSE**") under the trading symbol "STN".

Up to [47,300,000] Firm Shares (or 30% of the Firm Shares) are being offered to all trading participants of the PSE (the "**TP**" or "**Trading Participants**") and local small investors ("**LSIs**") under the Local Small Investors Program being implemented by the PSE (the "**Trading Participants and Retail Offer**"; and the shares subject of the Trading Participants and retail offer, the "**Trading Participants and Retail Offer Shares**"). Out of the Trading Participants and Retail Offer Shares, up to [31,530,000] Firm Shares (or 20% of the Firm Shares) are being allocated to all PSE Trading Participants (the "**TP Offer**"), and up to 15,770,000 Offer Shares (or 10% of the Firm Shares) (the "**Retail Offer**") are being offered to LSIs, subject to re-allocation as described below.

At least 110,347,919 Offer Shares (or 70% of the Offer Shares) are (subject to re-allocation as described below) being offered for sale to certain qualified buyers and other investors in the Philippines by the Issue Manager and Sole Underwriter (the "**Institutional Offer**"; and the shares subject of the Institutional Offer, the "**Institutional Offer Shares**").

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Company and the Issue Manager and Sole Underwriter. In the event of an under-application in the Institutional Offer and a corresponding over-application in the TP Offer, Offer Shares in the Institutional Offer may be reallocated to the TP Offer. If there is an under-application in the TP Offer and a corresponding over-application in the Institutional Offer, Offer Shares in the TP Offer may be reallocated to the Institutional Offer.

The reallocation shall not apply in the event of over-application or under-application in both the TP Offer, on the one hand, and the Institutional Offer, on the other hand. Upon completion of the Offer and full take-up thereof by public shareholders, the public ownership of the Company shall be equivalent to [29.98]%.

The estimated gross proceeds to be raised by the Company from the sale of the Offer Shares, assuming an Offer Price from Php1.80 to Php2.00, will be approximately [Php283.8 million up to Php315.3 million], and the estimated net proceeds to be raised by the Company from the sale of the Offer Shares, after deducting from the gross proceeds the estimated fees and expenses of the Offer of approximately Php17.5 million, is expected to be approximately [Php266.8 million up to Php297.8 million. A detailed discussion on the proceeds from the Offer Shares, as well as the use of proceeds can be found on the "Use of Proceeds" section of this Prospectus.

PSE Trading Participants who take up the Trading Participants and Retail Offer Shares (as defined below) shall be entitled to a selling fee of 1%, inclusive of VAT, of the gross proceeds of the Trading Participants and Retail Offer Shares taken up and purchased by the relevant PSE Trading Participant. Any Offer Shares left unsubscribed after the TP Offer (as defined below) and the Institutional Offer will be firmly underwritten by the Issue Manager and Sole Underwriter. For a more detailed discussion, please see "Plan of Distribution" of this Prospectus.

All of the Offer Shares have, or upon issue will have, rights and privileges identical to those of the issued and outstanding Common Shares of the Company. For a detailed discussion of the rights and features of the Common Shares, including the Offer Shares, please refer to the section on "Description of the Offer Shares" of this Prospectus.

The Company is authorized to declare dividends to holders of its Common Shares as of a record date set by the Company's Board of Directors ("**Board**"). Dividends may be payable, at the discretion of the Board, in cash, property, or stock. A cash or property dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board, and shareholders representing at least two-thirds of the Company's total outstanding capital stock. The Revised Corporation Code has defined "outstanding capital stock" as the total shares of stock issued, whether or not paid in full, except treasury shares. There can be no guarantee that the Company will pay any dividends in the future. The ability to declare dividends is subject to the requirements of applicable laws, rules and regulations, the availability of unrestricted retained earnings, and circumstances which restrict the payment of dividends.

On [●], the Company filed a Registration Statement with the SEC, in accordance with the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799, the "SRC") for the registration of the Offer Shares. On [●], the SEC approved the Registration Statement and issued a Pre-Effective Letter. Upon compliance with the requirements of the Pre-Effective Letter, the Company expects the SEC to issue the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale. The issuance of the Permit to Offer Securities for Sale is merely permissive and does not constitute a recommendation or endorsement by the SEC of the Offer Shares.

The listing of the Common Shares including the Offer Shares is subject to the receipt of the Notice of Approval issued by the PSE (the "**PSE Notice of Approval**"). On [●], the Company filed its application for the listing and trading of its issued and outstanding common shares and the Offer Shares. On [●], the PSE issued its Notice of Approval, subject to compliance with certain conditions. The PSE's approval of the listing is merely permissive and does not constitute a recommendation or endorsement of the Offer by the PSE. The PSE assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. Furthermore, the PSE makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Unless specifically stated otherwise, all information provided in this Preliminary Prospectus is current as of the date of its publication. It is important to note that the distribution of this Prospectus and the subsequent issuance or sale of any Offer Shares herein should not, under any circumstances, be construed as an assurance that the information contained herein remains accurate beyond the date of this document. Further, it does not imply that there have been no developments in the Company's affairs since that date.

The Company has exercised due diligence to the effect that, and confirms that, after having taken reasonable care to ensure that such is the case, and as of the date of this Prospectus, all information contained in this Prospectus is true and there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect, and the Company hereby accepts responsibility under and in accordance with the SRC for the accuracy of the material information contained in this Prospectus relating to the Issuer, the Company and its operations.

Foreign investors interested in purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares.

## RISK OF INVESTING

In making an investment decision, prospective investors are advised to carefully consider all the information in this Prospectus, including, but not limited to, the risks associated with an investment in the Offer Shares. These risks include:

- Risks relating to the Company's Business;
- Risks relating to the Philippines;
- Risks relating to the Offer and the Offer Shares; and
- Risks relating to the Presentation of Information in this Prospectus.

Please see the section entitled "**Risk Factors**" of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with an investment in the Offer Shares.

The Offer Shares are offered subject to receipt and acceptance of any order by the Company and subject to the Company's right to reject any order in whole or in part and in consultation with the Issue Manager and Sole Underwriter. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the Philippine Depository & Trust Corp. ("**PDTC**") on or about the Listing Date.

## NOTICE OF INVESTORS

No representation or warranty, express or implied, is made by STN or the Issue Manager and Sole Underwriter regarding the legality of an investment in the Offer Shares under any laws, rules or regulations. The Issue Manager and Sole Underwriter is expected to conduct due diligence on the Company, its documents, and the information presented on the Registration Statement. The contents of this Prospectus are not investment, financial, legal or tax advice. Prospective investors should consult their own counsel, accountant, and other advisors as to legal, tax, business, financial and related aspects of an investment in the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own careful examination of STN and the terms of the Offer, including the merits and risks involved. Furthermore, prospective investors should inform themselves of any taxation or exchange control law, rule, or regulation affecting them personally.

Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited. Each prospective investor of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

THE OFFER SHARES ARE BEING OFFERED IN THE PHILIPPINES ONLY, ON THE BASIS OF THIS PROSPECTUS. ANY DECISION TO SUBSCRIBE OR PURCHASE THE OFFER SHARES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus. If given or made, such information or representations must not be relied upon as having been authorized by the Company and the Issue Manager and Sole Underwriter. The delivery of this Prospectus or any sale of the Offer Shares offered hereby shall not, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

The information contained in this Prospectus relating to the Company and its operations has been supplied by the Company, unless otherwise stated herein. The Company has exercised due diligence to the effect that, and confirms that, after having taken reasonable care to ensure that such is the case, as of the date of this Prospectus, all information contained in this Prospectus relating to the Company and its operations is true and there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and the Company hereby accepts responsibility for the accuracy of all material information in this Prospectus and in all documents submitted to the relevant regulators in connection with the Offer.

The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. The Company and the Issue Manager and Sole Underwriter require persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or a solicitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Each prospective purchaser of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or resells the Offer Shares or possesses and distributes this Prospectus and must obtain any consents, approvals or permissions required for the purchase, offer, sale or resale by it of the Offer Shares under the laws, rules and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or resales, and none of the Issue Manager and Sole Underwriter and the Company shall have any responsibility therefor. The Issue Manager and Sole Underwriter has exercised due diligence required by Philippine law in ascertaining that all material representations contained in this Prospectus, and any amendment or supplement thereto, are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading in any material respect.

No representation, warranty, or undertaking, express or implied, is made by the Issue Manager and Sole Underwriter, and no responsibility or liability is accepted by the same as to the accuracy, adequacy, reasonableness, or completeness of the information and materials contained herein (excluding any and all information pertaining specifically to the Issue Manager and Sole Underwriter) or any other information provided by the Company in connection with the Offer.

Each person contemplating an investment in the Offer Shares should exercise appropriate due diligence, conduct an independent investigation and evaluation of the financial conditions, business affairs, status, prospects and other relevant circumstances of the Company, and arrive at his or her own determination of the creditworthiness of the Company as well as the suitability and merit of investing in the Offer Shares. A person contemplating an investment in the Offer Shares should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the Offer or the nature of the risks involved in the trading of the Common Shares. Investing in the Offer Shares involves a higher degree of risk compared to an investment in debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Offer Shares, please see the section "Risk Factors" of this Prospectus.

The purchase of the Offer Shares in certain jurisdictions may be restricted by law. Foreign investors interested in purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares.

The Offer Shares may be purchased and owned by any person or entity regardless of citizenship or nationality, subject to nationality requirements under Philippine law. The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities.

In particular, the Philippine Constitution and other Philippine laws and regulations require that ownership of companies that own land be limited to citizens of the Philippines, or Philippine Nationals. Philippine Nationals include corporations or associations organized under the laws of the Philippines of which at least 60% of the capital stock outstanding is owned or held by citizens of the Philippines. A wholly-owned subsidiary of the Company owns land as identified in the section on "Description of Property" of this Prospectus, hence, Foreign Nationals can own only a maximum of 40% of its outstanding capital stock.

Please refer to the discussion under the section on "Philippine Foreign Investment, Exchange Controls, and Foreign Ownership" of this Prospectus.

The Company reserves the right to withdraw the offer and sale of Offer Shares prior to the start of offer. The Company, in consultation with the Issue Manager and Sole Underwriter, reserves the right to reject any commitment to subscribe to or purchase the Offer Shares in whole or in part, and to allot to any prospective investor less than the full amount of the Offer Shares sought by such investor. If the Offer is withdrawn or discontinued, the Company shall subsequently notify the SEC and the PSE. The Issue Manager and Sole Underwriter and certain related entities may acquire for their own account a portion of the Offer Shares.

At any time on or after the commencement of the Offer Period and prior to Listing Date, the Company, may also withdraw the offer and sale of the Offer Shares if any of the force majeure or fortuitous events set out under the section "Summary of the Offer – Withdrawal of the Offer" of this Prospectus.

Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

## BASIS FOR CERTAIN MARKET DATA

Market data and certain industry data used throughout this Prospectus were obtained from market research, publicly available information, industry publications and on the Company's own analysis and knowledge of the markets for its products. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company and the Issue Manager and Sole Underwriter makes any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Please see the section entitled "Industry Overview" on of this Prospectus for information relating to the industry in which the Company operates.

## CONVENTIONS USED IN THIS PROSPECTUS

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the "**Company**," the "**Issuer**," "**STN**", and "**Steniel**" are to Steniel Manufacturing Corporation and, as the context may require, its subsidiaries.

All references to the "**BSP**" are references to Bangko Sentral ng Pilipinas, the central bank of the Philippines.

All references to the "**Government**" are references to the government of the Republic of the Philippines.

All references to "**Philippine Pesos**", and "**Php**" are to the lawful currency of the Philippines.

Any specific time of day refers to Philippine Standard Time. Certain terms used herein are defined in the "Glossary of Terms" of this Prospectus. Items in the Glossary of Terms may be defined otherwise by appropriate government agencies or laws, rules, or regulations from time to time, or by conventional or industry usage.

**PRESENTATION OF FINANCIAL INFORMATION**

The Company's financial statements are reported in Philippine Pesos and are prepared based on the Company's accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standards Council of the Philippines. PFRS includes statements named PFRS and Philippine Accounting Standards, and Philippines Interpretations from International Financial Reporting Interpretations Committee.

The financial information included in this Prospectus has been derived from the Company's financial statements. Unless otherwise indicated, financial information relating to STN in this Prospectus is stated in accordance with PFRS. Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

The Company's financial year begins on January 1 and ends on December 31 of each year. Valdes Abad & Company, CPAs ("**VACO**") has audited the Company's financial statements for the year ended December 31, 2023 and reviewed financial statements for the period ended September 30, 2024, while R.G. Manabat & Co. ("**KPMG**") has audited the Company's financial statements for the years ended December 31, 2021 and 2022, in accordance with Philippine Standards on Auditing ("**PSA**").

The Company appointed VACO as its independent auditors who issued a report dated April 19, 2024, with an unqualified opinion on the Company's financial statements for the year ended December 31, 2023 and reviewed the interim financial statements for the period ended September 30, 2024 on December 3, 2024; while KPMG has issued an unqualified opinion on the Company's financial statements for the years ended December 31, 2021, and 2022. For more information, please refer to the Company's audited financial statements as of and for the years ended December 31, 2021, 2022 and 2023 and for the period ended September 30, 2024, found in Appendix A-1 and B-1 of this Prospectus.

**PRESENTATION OF NON-PFRS FINANCIAL INFORMATION**

This Prospectus includes certain non-PFRS financial measures, including EBITDA and EBITDA margin. References to "**EBITDA**" are to net profit before finance costs, taxes, depreciation and amortization. EBITDA is a supplemental measure of STN's performance and liquidity that is not required by, or presented in accordance with PFRS. Further, EBITDA is not a measurement of STN's financial performance or liquidity under PFRS and should not be considered as an alternative to net income, revenues or any other performance measure derived in accordance with PFRS or as an alternative to cash flow from operations or as a measure of STN's liquidity. The Company believes that EBITDA may facilitate operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation and amortization of tangible assets. However, as there are various EBITDA calculation methods, STN's presentation of EBITDA may not be comparable to similarly titled measures used by other companies. "**EBITDA Margin"** is calculated as EBITDA divided by sales.

Non-PFRS financial measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for, an investors' own analysis of the Company's financial condition or results of operations, as reported under PFRS. These non-PFRS financial measures are not standardized terms and other companies may calculate measures bearing the same titles differently, hence a direct comparison between companies using such terms may not be possible, which limits the usefulness of these non-PFRS financial measures.

**A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.**

STENIEL MANUFACTURING CORPORATION

By:

NIXON Y. LIM
Chairman & President

REPUBLIC OF THE PHILIPPINES )
) S.S.

Before me, a notary public for and in the city named above, personally appeared NIXON Y. LIM, with Passport No. [redacted] at DFA Manila and valid until September 23, 2031, who was identified by me through competent evidence of identity to be the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this _____________ at _______________.

Doc No. ___;
Page No. ___;
Book No. ___;
Series of 2025.

## FORWARD LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from expected future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies, the environment in which the Company will operate in the future and current expectations and projections about future events and financial trends affecting its business. Words or phrases such as "believes," "expects," "anticipates," "intends," "plans," "foresees" or other words or phrases of similar import are intended to identify forward looking statements. Similarly, statements that describe the Company's objectives, plans or goals are also forward-looking statements, and the company gives no assurance that such forward-looking statements will prove to be correct. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated in the relevant forward-looking statements. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the Company's ability to successfully implement its current and future strategies;
- the Company's ability to successfully manage aggressive growth;
- changes in technology;
- any political and social instability in the Philippines;
- the condition of and changes in the Philippine, Asian or global economies;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- changes to the laws, including tax laws, regulations, policies and licenses applicable to or affecting the Company;
- competition in the Philippine renewable energy industry; and
- natural calamities

Additional factors that could cause the Company's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. In light of the COVID-19 pandemic, geopolitical developments, and associated uncertainties in the global financial markets and their effect on the real economy, any forward-looking statements and forward-looking financial information contained in this Prospectus must be considered with caution and reservation. The Company and the Issue Manager and Sole Underwriter expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based. The Company does not intend to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise, unless material within the purview of the SRC and other applicable laws, the mandate of which is to enforce investor protection. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Investors should not place undue reliance on any forward-looking information. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

Should one or more of the aforementioned uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated, or projected as well as from historical results. Specifically, but without limitation, revenues could decline, costs could increase, and anticipated improvements in performance might not be realized fully or at all.

Although the Company believes that the expectations of its management as reflected by forward looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to be correct. Accordingly, prospective investors are cautioned not to place undue reliance on the forward-looking statements herein.

The Issue Manager and Sole Underwriter does not take any responsibility representation, warranty or undertaking in relation to, any such forward-looking statement.

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# GLOSSARY OF TERMS

| | |
|---|---|
| Affiliate | A corporation that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under the common Control of, another corporation |
| Applicant | A person, whether natural or juridical, who seeks to purchase the Offer Shares by submitting an Application under the terms and conditions prescribed in this Prospectus |
| Application | An application to purchase Offer Shares pursuant to the Offer |
| Business Day | A day (except Saturdays, Sundays and holidays) on which banks in the Philippines are open for business in Metro Manila, Philippines |
| BIR | Bureau of Internal Revenue |
| Board or Board of Directors | The Board of Directors of the Company |
| BSP | Bangko Sentral ng Pilipinas, the central bank of the Philippines |
| Bunawan Plant | The production facility production facility owned by SMPC located on Km. 25, National Highway, Bunawan, Davao, with a total capacity of 64.5 million square feet per month |
| Buyer Group | The purchasers of Steniel from SNHBV, comprised of Greenkraft Corporation, Golden Bales Corporation, Corbox Corporation, Mr. Rex Chua and Mr. Clement Chua |
| Carmen Plant | The production facility owned by SCPC located on Purok 10B, Alejal, Carmen, Davao del Norte with a total capacity of 64.5 million square feet per month |
| Corbox | Corbox Corporation |
| COVID-19 | A disease caused by a new strain of coronavirus. Formerly referred to as '2019 novel coronavirus' or '2019-nCoV'. |
| Depository Agent | Philippine Depository and Trust Group |
| Dole | Dole Philippines, Inc. (doing business as "Dole Philippines" and "Dole Stanfilco") |
| ECQ | Enhanced Community Quarantine |
| Eligible Investors | Applicants who are qualified to purchase the Offer Shares |
| FIA | Foreign Investments Act of 1991, as amended |
| FMCG / FMCGs | Fast Moving Consumer Goods |
| KPMG | R.G. Manabat & Co, a Philippine partnership and a member firm of the KPMG global organization of independent member firms |
| GCQ | General Community Quarantine |
| GDP | Gross domestic product, or the monetary value of all the finished goods and services produced within a country's borders, calculated on an annual basis |

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| Gensan Plant | The converting facility owned by SMPC located on BTY Compound National Highway, Apopong, General Santos City with a total capacity of 6.6 million square feet per month |
| Golden Bales | Golden Bales Corporation |
| Government | The Government of the Republic of the Philippines |
| Greenkraft | Greenkraft Corporation |
| Institutional Offer | The offer for subscription of up to 70% of the Offer Shares equivalent to 110,347,919 common shares to eligible QIBs subject to the terms and conditions in this Prospectus and in the Application. |
| IRO | Investor Relations Officer |
| Issue Manager and Sole Underwriter | Investment & Capital Corporation of the Philippines |
| Listing Date | The date on which the listing and trading of the Offer Shares on the PSE begin, expected to be on [●]. |
| LSI | Local Small Investors |
| LTSA | Long Term Supply Agreement |
| NIRC | Philippine National Internal Revenue Code |
| NGCP | National Grid Corporation of the Philippines |
| Offer or Offer Shares | The offer for subscription of up to 157,647,919 common shares to Eligible Investors subject to the terms and conditions in this Prospectus and in the Application, consisting of up to 157,647,919 primary common shares to be issued and offered by the Company out of its authorized capital stock by way of a primary offer. |
| Offer Period | The period commencing 9:00 a.m. on [___________, 2025] and ending at 12:00 p.m. on [___, 2025] within which the Eligible Investors may purchase the Offer Shares |
| Offer Price | From Php1.80 to Php2.00 per share |
| Offer Shares or Shares | The Company's 157,647,919 Offer Shares each with a par value of Php 1.00 |
| Php | Philippine Pesos, the lawful currency of the Republic of the Philippines |
| PCD | The Philippine Central Depository |
| PCD Nominee | The PCD Nominee Corporation, a corporation wholly owned by the PDTC |
| PDS | The Philippine Dealing System |
| PDTC | The Philippine Depository and Trust Corporation, the central securities depositary of, among others, securities listed and traded on the PSE |
| PFRS | Philippine Financial Reporting Standards |
| PIFITA | House Bill No. 4339 and Senate Bill No. 900 or the Passive Income and Financial Intermediary Taxation Act |

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| Philippine Nationals | Pursuant to the FIA, any of the following:<br>• a citizen of the Philippines; or<br>• a domestic partnership or association wholly owned by citizens of the Philippines; or<br>• a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; or<br>• a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or<br>• a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of the Philippine nationals. Where a corporation and its non-Filipino stockholders own stocks in an SEC-registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of both corporations must be owned and held by citizens of the Philippines and at least 60% of the members of the Board of Directors of both corporations must be citizens of the Philippines, in order that the corporations shall be considered a Philippine national<br><br>Pursuant to SEC Memorandum Circular No. 8, Series of 2013, which generally applies to all corporations engaged in identified areas of activities or enterprises specifically reserved, wholly or partly, to Philippine nationals by the Philippine Constitution, the FIA and other existing laws, amendments thereto, and implementing rules and regulations of said laws, for purposes of determining compliance with the constitutional or statutory ownership requirement, the required percentage of Filipino ownership shall be applied to both:<br>• the total number of outstanding shares of stock entitled to vote in the election of directors; and<br>• the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. |
| Prospectus | This Prospectus together with all its annexes, appendices and amendments |
| PSE | The Philippine Stock Exchange, Inc. |
| QIB | Any of the qualified buyers provided under Rule 10 of the Securities and Regulations Code, as amended by SEC Memorandum Circular No. 6, Series of 2021, and any other juridical persons that possesses at the time of registration with an authorized registrar:<br>• have gross assets of at least One Hundred Million Pesos (Php 100,000,000.00) or<br>• a total portfolio investment in securities registered with the SEC or financial instruments issued by the government of at least Sixty Million Pesos (Php 60,000,000.00). |
| Registrar | Stock Transfer Service Inc. |
| Receiving Agent | Stock Transfer Service Inc. |
| Retail Offer | The offer for subscription of up to 15,770,000 common shares to LSIs subject to the terms and conditions in this Prospectus and in the Application. |
| Revised Corporation Code | Republic Act 11232 or the Revised Corporation Code of the Philippines |
| SEC | The Philippine Securities and Exchange Commission |
| SNHBV | Steniel (Netherlands) Holdings B.V. |

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| Steniel, STN, the Company, or the Issuer | Steniel Manufacturing Corporation |
| STN Principals | The collective term representing the principal shareholders of Steniel, comprised of Greenkraft Corporation, Golden Bales Corporation, Corbox Corporation, Roxburgh Investments Ltd., with their respective management teams, and Mr. Clement O. Chua |
| SCPC | Steniel Cavite Packaging Corporation |
| SMPC | Steniel Mindanao Packaging Corporation |
| SSS | The Social Security System, a state-run social insurance program in the Philippines |
| SRC | Republic Act No. 8799, otherwise known as “The Securities Regulation Code” |
| STN Subsidiaries | The subsidiaries of Steniel Manufacturing Corporation, namely Steniel Mindanao Packaging Corporation and Steniel Cavite Packaging Corporation collectively responsible for operating the production facilities of the Company. |
| Stock Transfer Agent | Stock Transfer Service Inc. |
| Subsidiary | A corporation which is controlled, directly or indirectly, by another corporation which thereby becomes its Parent |
| Trading Day | Any day on which trading is allowed in the PSE |
| TP or Trading Participant | Individual and corporate members of the Philippine Stock Exchange that have been granted trading rights on the PSE. |
| TP Offer | The offer for subscription of up to 31,530,000 common shares to Trading Participants subject to the terms and conditions in this Prospectus and in the Application. |
| Trading Participants and Retail Offer | The offer for subscription of up to 47,300,000 common shares to Trading Participants and LSIs subject to the terms and conditions in this Prospectus and in the Application |
| Underwriting Agreement | The agreement entered into by and between the Company and the Issue Manager and Sole Underwriter, indicating the terms and conditions of the Offer and providing that the Offer shall be fully underwritten by the Issue Manager and Sole Underwriter. |
| VACO | Valdes, Abad & Co., a Philippine partnership and a member firm of the GMNI global organization of independent member firms |
| VAT | Value Added Tax |

# EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Preliminary Prospectus, including the Company's audited consolidated financial statements for the years ended 2021, 2022, and 2023 and reviewed consolidated financial statements for the period ending as of September 30, 2024 and related notes included elsewhere in this Preliminary Prospectus. Prospective investors should read this entire Preliminary Prospectus fully and carefully, including the section on Risk Factors. In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail. Capitalized terms not defined in this summary are defined in the Glossary of Terms, Risk Factors, Business or elsewhere in this Preliminary Prospectus.

**THE COMPANY**

Steniel Manufacturing Corporation ("**Steniel**", "**STN**" or the "**Company**"), through its subsidiaries, engages in the manufacture and distribution of high quality industrial corrugated paper packaging materials, or corrugated boxes. The Company was established on September 13, 1963 and is one of the oldest operating packaging manufacturers in the Philippines. Prior to the slowdown in the Company's business amidst the Asian Financial Crisis, Steniel was the largest independent manufacturer of corrugated boxes in the Philippines.

STN's operations slowed down significantly after the 1997 Asian Financial Crisis, as increased competition as well as the Company's outdated infrastructure weighed on profitability. In 2006, Steniel's former shareholders authorized the Company to enter into debt rehabilitation proceedings. Petitions for rehabilitation were filed in 2007 for the Company and its subsidiaries, which were all dismissed in 2009. By 2012, a new shareholder group completed the acquisition of the outstanding debt of STN and equity interest in the Company as detailed in the Corporate Restructuring section below.

At present, the Company's major shareholders are Greenkraft (18.20%), Golden Bales (19.45%), Corbox (19.45%), Roxburgh (18.46%), and Mr. Clement O. Chua[1] (9.82%) (collectively with its respective management teams, the "**STN Principals**") with an aggregate ownership equivalent to 77.80% of STN's capital stock. The STN Principals are comprised of seasoned executives with collectively over 100 years of experience in operating packaging companies in the Philippines.

Steniel's long history and reputation for quality continues to be a core competitive advantage. The Company has leveraged this to develop a niche in corrugated boxes tailored for its established clientele[2]. STN has a broad roster of multinational fast-moving consumer goods ("**FMCG**") customers, global fruit companies, and domestic packaged food manufacturers. These include well-known companies such as Dole Philippines, Inc., Lapanday Foods Corporation, Lapanday Diversified Products Corporation, and Philippines Spring Water Resources, among others.

The Company has also developed strong in-house capabilities in sourcing, manufacturing, supply chain management, and quality assurance which allows the Company to meet the exacting requirements of its clientele. The Company, through its wholly-owned subsidiaries, has an aggregate production capacity of 129.0 million square feet per month across its two (2) production plants in Davao. The Company's output exclusively caters to the regional requirements of its customers, as it remains uneconomical to ship corrugated boxes over long distances. This also insulates STN from external competitive forces, such as foreign players.

Steniel continuously looks to increase efficiency to maintain and improve its profitability. The Company regularly reviews its production processes and optimizes its internal workflows. This includes acquiring state-of-the-art technology, such as digital printers in its Bunawan Plant. The digital printers allow the Company to elevate printing quality, maintain the stability of its production, and enable small quantity run flexibility. Steniel also has in-house quality assurance laboratories to ensure that its products are in-line with specifications and minimize returns.

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[1] Mr. Clement O. Chua is a shareholder of Greenkraft Corporation, Corbox Corporation and Golden Bales Corporation, and has direct and indirect shares in STN.
[2] A discussion on the Company's clientele can be found in the Business – Customers section of this Prospectus.

STN also invests significant resources in developing and maintaining its strong supply chain. This includes sourcing and maintaining a deep network of raw material suppliers to broaden and diversify its sourcing. The Company also owns and develops warehouses and converting facilities in strategic areas, as detailed in the Business section of this Prospectus. These converting facilities obtain intermediate corrugated boards and cut into the necessary forms for its end-customers. This minimizes turnaround time and reduces logistics cost.

STN believes it was able to maximize customer satisfaction and retention as a result of the above initiatives. This, in turn, translated to improved operations and profitability. For periods ending December 31, 2021, 2022, and 2023, the Company's revenues amount to Php1.28 billion, Php2.21 billion, and Php3.41 billion, respectively, with net income amounting to Php17.97 million, Php28.36 million, and Php117.78 million during the same periods.

The Company has two (2) subsidiaries Steniel Mindanao Packaging Corporation ("**SMPC**") and Steniel Cavite Packaging Corporation ("**SCPC**"), collectively the STN Subsidiaries. Through the STN Subsidiaries, Steniel operates two (2) wholly owned production plants namely, the Bunawan Plant located in Km. 25, National Highway, Bunawan, Davao (the "**Bunawan Plant**"), and the Carmen Plant located in Purok 10B, Alejal, Carmen, Davao del Norte (the "**Carmen Plant**"). The Bunawan Plant spans 18,000 sqm and has an aggregate capacity of 64.5 million square feet per month. Meanwhile, the Carmen Plant spans 33,000 sqm and has an aggregate capacity of 64.5 million square feet per month. STN also has a converting facility located in BTY Compound National Highway, Apopong, General Santos City (the "**Gensan Plant**"), which spans 1,320 sqm and has an aggregate converting capacity of 6.6 million square feet per month.

## CORPORATE RESTRUCTURING

Prior to 2006, Steniel (Netherlands) Holdings B.V. ("**SNHBV**"), a company incorporated in Amsterdam, The Netherlands, owned 82.2716% of the shares of the Company. SNHBV was then 100%-owned by Steniel (Belgium) Holdings NV ("**Steniel Belgium**"). In 2006, Steniel Belgium sold its shares in SNHBV to certain directors and officers of the Company. With the sale of shares, SNHBV became the ultimate parent company.

On the same year, the Company failed to settle its loans. Due to the working capital drain as a result of prior debt service repayments and the difficult business and economic conditions, the Company found it difficult to sustain further payments of debt while at the same time continuing with its operations. The Company filed petitions for rehabilitation while the lending banks sold and assigned the loan balances. In 2010, the Company entered into an Amended and Restated Omnibus Agreement (the "**Restructuring Agreement"**) with the new creditors.

Consequent to the restructuring of the loan, a portion of the debt assigned to Roxburgh Investments Limited ("**Roxburgh**"), a limited liability company incorporated in the British Virgin Islands, was converted into equity. The remaining unissued capital stock of the Company totaling 123,817,953 shares were issued to Roxburgh resulting in Roxburgh owning 12.3818% of the Company. 72.0849% of the shareholdings was then held by SNHBV while the remaining 15.5333% was held by the public.

In January 2012, the shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited ("**Right Total**"), a limited liability company incorporated in the British Virgin Islands for the acquisition of 100% of the issued and outstanding shares of SNHBV. With the sale of shares of SNHBV, Right Total became the owner of the 72.0849% shares of SNHBV consequently making Right Total as the ultimate parent company of STN.

Also in January 2012, the Company received a tender offer from Right Total offering to purchase 279,151,088 shares held by the minority shareholders, equivalent to 27.92% of the total issued shares of STN at a price of Php0.0012 per share or an aggregate price of Php334.9 million. A total of 2,115,692 common shares were tendered and accepted by SNHBV, constituting 0.0021% of the total outstanding capital stock of the Company. Such accepted tender offer did not significantly change the percentage ownership of the minority investing public.

In June 2019, the Company's Board of Directors approved the reacquisition of Steniel Mindanao Packaging Corporation ("**SMPC**") through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares.

The Company also approved the conversion of the loans extended by Greenkraft Corporation ("**Greenkraft**") and Roxburgh into equity. These approvals were made in view of the need to address the negative stockholders' equity of the Company.

In preparation for these share issuances, the Board approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held in July 2019 and reconfirmed in November 2020.

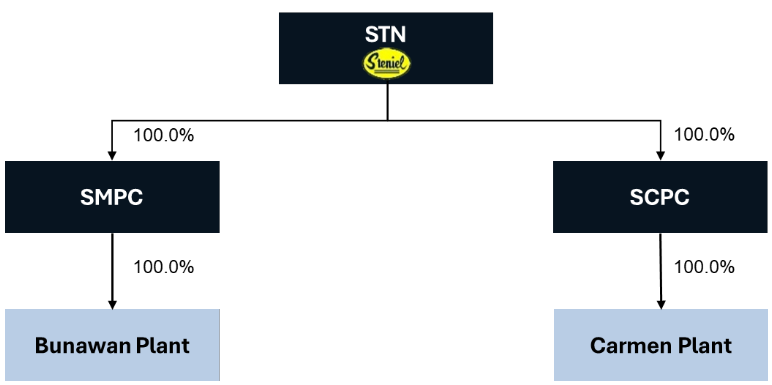
In October 2020, Greenkraft, Golden Bales Corporation ("**Golden Bales**"), Corbox Corporation ("**Corbox**"), Mr. Rex Chua and Mr. Clement Chua, as purchasers (collectively, the "**Buyer Group**") entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares, equivalent to 64.99% of the total shareholdings, of the Company. In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company, excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. A total of 11,780,533 common shares of STN were tendered, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale in November 2020 involving the 649,908,308 shares of the Company. The transfer of the 649,908,308 common shares in favor of the Buyer Group has been recorded in the books of STN. The transfer effectively reduced the shareholding of SNHBV to 5% of the Company's outstanding capital stock.

In December 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group and Roxburgh. The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for STN shares issued to the Buyer Group; and (ii) partly subscribed through conversion of loans extended by Greenkraft and Roxburgh into equity.

In October 2023, SNHBV and Greenkraft sold a total of 130,940,604 shares for purposes of complying with the minimum public float requirement of at least 20% of the company's outstanding capital stock. With this sale, SNHBV ceased to be a shareholder of the Company and the Company's public float increased from 13.09% to 22.27%. As of the date hereof, the Company's major shareholders are comprised of the STN Principals.

**CORPORATE STRUCTURE**




**COMPETITIVE STRENGTHS**

The Company considers the following as its competitive strengths:

- Established corrugated box brand
- Long-standing customer relationships
- Experienced and seasoned management team

- Resilient supply chain
- Strategically located production facilities in Davao

A more detailed discussion of these competitive strengths is provided in the *Business – Competitive Advantages* section of this Prospectus.

## PLANS AND PROSPECTS

The Company is looking to further grow its business through the following plans and prospects:

- Deepen relationships with existing customers
- Develop new customer relationships outside of agriculture
- Focus on future expansion facilities
- Assess acquisition opportunities of businesses

A more detailed discussion of these plans and prospects can be found in the *Business – Plans and Prospects* section of this Prospectus.

## STRATEGIES

In order to achieve the Company's plans and prospects, the Company will pursue the following strategies:

- Invest in technology
- Focus on efficiency
- Expand manufacturing capacity
- Diversify product types
- Develop in-house talent
- Focus on customer service

A more detailed discussion is provided in the *Business – Key Strategies* section of this Prospectus.

## RISKS OF INVESTING

Before making an investment decision, investors are advised to carefully consider all the information contained in this Prospectus, including the following key points characterizing the potential risks associated with an investment in the Offer Shares.

These include risks arising from the nature of the Company and its business, risks relating to the economic and political environment in the Philippines, and risks relating to the Offer Shares. Please refer to the Risk Factors for a discussion, which, while not meant to be exhaustive, should be considered in connection with an investment in the Offer Shares.

## CORPORATE INFORMATION

The Company's principal office is at Gateway Business Park, Brgy. Javalera, General Trias, Cavite. The Company's website is https://www.steniel.com.ph/.

## INVESTOR RELATIONS OFFICE

The Investor Relations Office will implement the investor relations program in order to reach out to all shareholders and keep them informed of corporate activities. The office will also handle communication of relevant information to the Company's stakeholders as well as to the broader investor community. The Investor Relations Office will also be responsible for receiving and responding to investor and shareholder queries relating to STN.

The Investor Relations Officer ("**IRO**") will ensure that the Company complies with and files on a timely basis all required disclosures and continuing requirements of the SEC and the PSE. In addition, the IRO will oversee most aspects of the shareholder meetings, press conferences, investor briefings, and management of the investor relations portion of STN's website, which will contain information, including but not limited to:

- Company information (organizational structure, board of directors, and management team);
- Company news (analyst briefing report, press releases, latest news, newsletters (if any));
- Financial report (annual and quarterly reports for the past two years);
- Disclosures;
- Investor FAQs;
- Investor contact (e-mail address and phone numbers for feedback/comments, shareholder assistance and service); and
- Stock information.

The Investor Relations Office will be located in the principal place of business of STN with contact details as follows:

- Investor Relations Officer: Maribel O. Severino
- Address: Gateway Business Park, Brgy. Javalera, General Trias, Cavite.
- Tel. No: +63 917 848 8100
- Email: maribel.severino@steniel.com.ph
- Website: https://www.steniel.com.ph/

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# SUMMARY OF THE OFFER

The following does not purport to be a complete listing of all rights, obligations and privileges attaching to or arising from the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of the Company and the Offer Shares. Each prospective investor must rely on its own appraisal of the Company and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and must not rely solely on any statement or the significance, adequacy, accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis.

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| Issuer | Steniel Manufacturing Corporation |
| Stock Symbol | STN |
| Issue Manager and Sole Underwriter | Investment & Capital Corporation of the Philippines |
| Selling Agents | PSE Trading Participants |
| Stock Transfer Agent | Stock Transfer Service, Inc. |
| Receiving Agent | Stock Transfer Service, Inc. |
| Escrow Agent | RCBC Trust Corporation |
| Independent Auditor | Valdes Abad & Company |
| Legal Counsel to the Issuer | Martinez Vergara & Gonzalez Sociedad |
| Legal Counsel to the Issue Manager and Sole Underwriter | Tan Venturanza Valdez |
| The Offer / Offer Shares | Offer of up to [157,647,919] primary common shares ("**Offer Shares**") |
| Institutional Offer | Up to 110,347,919 Offer Shares (or 70% of the Offer Shares) are being offered and sold to certain qualified institutional buyers ("**QIBs**") and the general public in the Philippines at the Offer Price by the Issue Manager and Sole Underwriter. |
| Trading Participants and Retail Offer | Up to 47,300,000 Offer Shares (or 30% of the Firm Shares) (the "Trading Participants and Retail Offer Shares") are being offered in the Philippines through all the PSE Trading Participants and to local small investors ("LSIs") under the Local Small Investors Program of the PSE (subject to reallocation as described below) at the Offer Price.<br><br>Up to [31,530,000] Offer Shares (or 20% of the Offer Shares) are being offered to all of the PSE Trading Participants (the "Trading Participants Offer Shares") and up to [15,770,000] Offer Shares (or 10% of the Firm Shares) are being offered to LSIs. |

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| | Each PSE Trading Participant shall initially be allocated 260,000 Offer Shares (computed by dividing the 31,530,000 Offer Shares among the 121 active PSE Trading Participants rounded down to the required subscription multiple), subject to reallocation as may be determined by the Sole Underwriter.<br><br>Each LSI applicant may purchase up to a maximum of [50,000] Offer Shares at the Offer Price. LSIs shall purchase through the PSE Electronic Allocation System ("PSE EASy"). An LSI is defined as a buyer to the Offer who is willing to purchase to a minimum board lot or whose subscription does not exceed Php 100,000.00. In the case of this Offer, the minimum subscription of LSIs shall be 10,000 Offer Shares or [Php18,000.00 up to Php20,000.00], while the maximum subscription shall be [50,000] Offer Shares or [Php90,000.00 up to Php100,000.00. There will be no discount on the Offer Price. The procedure in subscribing to Offer Shares via PSE EASy is indicated in the Company's LSI Guidelines to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Issue Manager and Sole Underwriter shall prioritize the subscriptions of LSIs with amounts lower than the maximum subscription.<br><br>The Issue Manager and Sole Underwriter shall purchase the Trading Participants and Retail Offer Shares not reallocated to the Institutional Offer or otherwise not taken up by the PSE Trading Participants, LSIs or clients of the Sole Underwriter or the general public in the Philippines pursuant to the terms and conditions of the Underwriting Agreement. |
| Offer Price | From Php1.80 to Php2.00 per Offer Share. The Offer Price shall be determined through a book-building process and discussions between the Company and the Issue Manager and Sole Underwriter. |
| Offer Period | The Offer Period shall commence at 9:00 am., Manila time on [●] and end at 12:00 noon, Manila time on [●]. The Company and the Sole Underwriter reserve the right to extend or terminate the Offer Period, subject to the prior approval of the SEC and the PSE.<br><br>Applications must be received by the Receiving Agent not later than 12:00 noon Manila Time on [●], whether filed through a participating Selling Agent or filed directly with the Sole Underwriter. Applications received thereafter or without the required documents will be rejected.<br><br>Applications shall be considered irrevocable upon submission to a participating Selling Agent or the Sole Underwriter and shall be subject to the terms and conditions of the Offer as stated in the Prospectus and in the application. The actual purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE and upon the obligations of the Sole Underwriter under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled on or before the Listing Date in accordance with the provisions of such agreement. |
| Eligible Investors and Restrictions on Ownership | The Offer Shares may be purchased or held by any person of legal age or duly organized and existing corporations, partnerships or other corporate entities regardless of nationality. However, the Philippine Constitution and related statutes set forth restrictions on foreign ownership of Philippine companies engaged in certain activities.<br><br>The Philippine Constitution also limits foreign equity ownership in companies owning land or operating a public utility to 40 per cent of the companies' capital stock. Thus, any subsequent transfer of Shares must comply with the nationality restrictions. In the event that foreign ownership of the Company's issued and outstanding capital stock will exceed the permissible level, the Company has the right to reject a transfer request by persons other than |

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| | Philippine Nationals and has the right not to record such purchases in the books of the Company. |
| Use of Proceeds | The Company intends to use the net proceeds from the Offer to fund the Panabo Expansion and working capital requirements. See the Use of Proceeds section of the Prospectus for details of how the total net proceeds are expected to be applied. |
| Minimum Subscription and Board Lot | Each application must be for a minimum of 10,000 Offer Shares, and thereafter, in multiples of 1,000 Offer Shares. Applications for multiples of any other number of Common Shares may be rejected or adjusted to conform to the required multiple, at the Company's discretion. |
| Voluntary Lock-up | Under the Revised Rules on Backdoor Listing, (i) shares acquired pursuant to the transaction giving rise to backdoor listing shall be locked up from closing or completion of the transaction until six (6) months after the conduct of the public offering and (ii) shares held by stockholders owning at least ten percent (10%) of the total issued and outstanding shares shall be locked up for one (1) year from closing or completion of the transaction giving rise to backdoor listing. In STN's case, the transaction giving rise to the backdoor listing was the Company's reacquisition of SMPC occurred in 2019 and the 269,250,000 shares issued in relation thereto were issued on December 20, 2020. Hence, the lock-up requirement does not apply to STN.<br><br>Nonetheless, the following shareholders have agreed with the Issue Manager and Sole Underwriter that they will not, without the prior written consent of the Manager and Sole Underwriter, sell, assign or in any manner dispose of their Shares for a minimum period of 180 days after the Listing Date. |

| SHAREHOLDER | NO OF SHARES SUBJECT TO 180-DAY LOCK-UP PERIOD |
|---|---|
| Roxburgh Investments Limited | 261,910,503 |
| Greenkraft Corporation | 101,237,482 |
| Golden Bales Corporation | 80,775,000 |
| Corbox Corporation | 80,775,000 |
| Clement Chua | 8,966,025 |
| Rex Chua | 8,966,025 |
| Nixon Lim | 1 |
| | |
| **TOTAL** | **542,630,036** |

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| | To implement the lock-up requirement, the Company and the foregoing shareholders shall enter into an escrow agreement with RCBC Trust, the Escrow Agent for the Lock-Up Shares. |
| Registration, Listing and Trading | The Company has filed an application with the SEC for the registration and an application with the PSE for the listing of the Offer Shares. The SEC is expected to issue an Order of Effectivity and Permit to Sell on or about [●] and the PSE approved the listing application on [●], subject to compliance with certain listing conditions.<br><br>All of the Offer Shares are expected to be listed on the PSE on [●]. Trading of the Offer Shares that are not subject to lock up is expected to commence on [●]. |
| Dividends and Dividend Policy | Each holder of Common Shares will be entitled to such dividends as may be declared by the Company's Board of Directors (the "**Board**" or "**Board of Directors**"), provided that any share dividends declaration requires the approval of shareholders holding at least two-thirds of its total "outstanding capital stock." Republic Act No. 11232 or the Revised Corporation Code of the |

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| | Philippines (the "**Revised Corporation Code**") has defined outstanding capital stock as the total shares of stock issued under binding subscription contracts to subscribers or stockholders, whether fully or partially paid, except for treasury shares. Currently, the Company is focused on funding its expansion initiatives. As of the date of this prospectus, the Company has yet to adopt a dividend policy. However, the Company's Board may, at any time, declare dividends and/or formally adopt a dividend policy depending upon the Company's capital expenditure plans and/or any terms of financing facilities entered into to fund its current and future operations and projects. The Company makes no assurance that it will pay any dividends in the future. See the Dividends and Dividend Policy section of the Prospectus for more discussion. |
| Form, Title and Registration of the Offer Shares | The Offer Shares will be issued in scripless form through the electronic bookentry system of [●] acting through its [●] as Registrar for the Offer and lodged with the PDTC as Depository Agent on Listing Date through PSE Trading Participants respectively nominated by the applicants. For this purpose, applicants shall indicate in the proper space provided for in the Application Form the name of a PSE Trading Participant under whose name their shares will be registered.<br><br>After Listing Date, shareholders may request the Registrar, through their respective nominated PSE Trading Participants, to (a) open a scripless registry account and have their holdings of the Offer Shares registered under their name, or (b) issue stock certificates evidencing their investment in the Offer Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.<br><br>Legal title to the Offer Shares will be shown in an electronic register of shareholders ("**Registry of Shareholders**") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the Company's cost) at least once every year a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof.<br><br>Any costs and expenses with respect to the request by shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder. |
| Restrictions on Ownership | The Offer Shares will be in scripless form and may be purchased by any person, association, partnership, or trust, regardless of citizenship or nationality, subject to the nationality limits under Philippine law. The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in nationalized or partly nationalized activities. The STN Subsidiaries own certain real estate in the Philippines. As such, foreign equity in the Company cannot exceed 40% of the total outstanding capital stock. For more information relating to restrictions on the ownership of the Shares, please see the Description of the Shares section and the Philippine Foreign Exchange and Foreign Ownership Controls section of this Prospectus. |
| Registration of Foreign Investments | The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP only if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the |

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| | foreign investor. See the Philippine Foreign Exchange and Foreign Ownership Controls section of this Prospectus. |
| Tax Considerations | See the Philippine Taxation section of this Prospectus for further information on the Philippine tax consequences of the purchase, ownership and disposal of the Offer Shares. |
| Procedure for Application | For PSE Trading Participants ("**TPs**")<br><br>Application forms to purchase and signature cards will be provided to the TPs by Sole Underwriter. Application forms will also be made available for download on the Company website.<br><br>Applicants shall complete the application form, indicating all pertinent information such as the applicant's name, address, taxpayer's identification number, citizenship, and all other information as may be required in the application form. Applicants shall undertake to sign all documents and to do all necessary acts to enable them to be registered as holders of Offer Shares. Failure to complete the application form may result in the rejection of the application.<br><br>Applications must be received by the Receiving Agent not later than 12:00 p.m. on [●]. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to a PSE Trading Participant, and shall be subject to the terms and conditions of the Offer as stated in the Prospectus and in the application. The actual purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE and upon the obligations of the Sole Underwriter under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled on or before the Listing Date in accordance with the provisions of such agreement.<br><br>If the applicant is a corporation, partnership or trust account, the application must be accompanied by the following documents:<br><br>• A certified true copy of the applicant's latest articles of incorporation and by-laws (or articles of partnership in the case of a partnership) and other constitutive documents (each as amended to date) duly certified by its corporate secretary (or managing partner in the case of a partnership);<br>• A certified true copy of the applicant's SEC certificate of registration or certificate of filing amended articles of incorporation or by-laws, as the case may be, duly certified by its corporate secretary (or managing partner in the case of a partnership); and<br>• A duly notarized corporate secretary's certificate (or certificate of the managing partner in the case of a partnership) setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares indicated in the application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying the percentage of the applicant's capital or capital stock held by Philippine Nationals.<br><br>Foreign corporate and institutional applicants who qualify as Eligible Investors, in addition to the documents listed above, are required to submit, in quadruplicate, a representation, and warranty stating that their purchase of the Offer Shares to which their application relates will not violate the laws of their jurisdictions of incorporation or organization, and that they are allowed, under such laws, to acquire, purchase and hold the Offer Shares. |

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| | An application should be submitted in quadruplicate (four (4) copies, one (1) of which shall be returned to the applicant) and accompanied by the following documents (complete):<br><br>• Duly accomplished Applications submitted in quadruplicate (4 copies), one (1) of which will be returned to the TP;<br>• The required attachments as enumerated in the Applications;<br>• Two (2) specimen signature cards fully completed and signed by the applicant's designated signatories, and certified by its corporate secretary (or equivalent officer);<br>• Four (4) hard copies of the Sales Report duly certified by the representative authorized of the TPs; and<br>• A soft copy of the accomplished Sales Report must be sent to [●] and [●] with subject "STN Sales Report".<br><br>This should be read in conjunction with the Offer Implementing Guidelines which will be published on the PSE EDGE website prior to the start of the Trading Participants and Retail Offer. |
| Payment Terms for the PSE Trading Participants | The purchase price must be paid in full in Philippine Pesos upon the submission of the duly completed and signed application form and signature card together with the requisite attachments.<br><br>Payments for the PSE Trading Participants Offer Shares must be cleared on or before [●]. The modes of payment and instructions will be specified in the Offer Implementing Guidelines which will be published on the PSE EDGE website prior to the start of the Offer Period. |
| Acceptance/ Rejection of Applications | An Application, when accepted, shall constitute a binding and effective agreement between the applicant and the Company for the subscription to the Offer Shares notwithstanding any provision to the contrary as may be found in the Application, this Prospectus, and other offer-related document. Notwithstanding the acceptance of any Application, the actual issuance of the Rights Shares to an Applicant shall take place only upon the listing of the Rights Shares on the PSE.<br><br>Subject to the right of the Company to withdraw or cancel the offer and sale of the Offer Shares prior to Listing Date pursuant to the Withdrawal of the Offer section of the Prospectus, the Company and any of its agents involved in the Offer undertake to comply with all conditions that are within the control of the Company and any of its agents involved in the Offer, to ensure the listing of the Offer Shares on Listing Date. |
| Withdrawal of the Offer | The Company reserves the right to withdraw the offer and sale of the Offer Shares at any time before the commencement of the Offer Period, in which event the Company shall make the necessary disclosures to the SEC and PSE.<br><br>The Company may also withdraw the offer and sale of the Offer Shares at any time on or after the commencement of the Offer Period and prior to the Listing Date, if there is a supervening force majeure or fortuitous event, such as:<br><br>a. An outbreak or escalation of hostilities or acts of terrorism involving the Philippines or a declaration by the Philippines of a state of war; or occurrence of any event or change (whether or not forming part of a series of events occurring before, on and/or after the date hereof) of a political, military, economic or other nature; or occurrence of any change in local, national or international financial, political or economic which renders it impracticable to continue with the Offer and/or listing of the Offer Shares in the manner contemplated by the Prospectus, or would have a material adverse effect on the Philippine economy, on the securities or other financial or currency markets of the Philippines, or on the distribution, offer and sale of the Offer Shares in the Philippines, rendering it impracticable to proceed with the Offer in the |

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| | manner contemplated by the Prospectus, provided that for the avoidance of doubt, the Offer shall not be withdrawn, cancelled, suspended or terminated solely by reason of the Issuer's or Underwriter's inability to sell or market the Offer Shares or refusal or failure to comply with any undertaking or commitment by the Issuer, the underwriter, or any other entity/ person to take up any shares remaining after the Offer Period;<br><br>b. Issuance of an order revoking, cancelling, suspending, preventing or terminating the offer, sale, distribution or listing of the Offer Shares by any court or governmental agency or authority with jurisdiction on the matter, the BSP, the SEC or the PSE;<br><br>c. Cancellation, revocation or termination of the PSE Notice of Approval, the SEC pre-effective clearance, the SEC Order of Registration, the SEC Permit to Sell or the BSP Approval;<br><br>d. Cancellation or suspension of trading in the PSE for at least three (3) consecutive trading days, or in such manner or for such period as will render impracticable the listing and trading of the Offer Shares on the Listing Date or such other date as may be approved by PSE;<br><br>e. A change or impending change in the law, rule, regulation, policy or administrative practice, or a ruling, interpretation, decree or order which (i) materially an adversely affects: (a) the ability of the Issuer to engage in the business it is presently engaged in; or (b) the capacity and due authorization of the Issuer to offer and issue the Offer Shares and enter into the transaction documents in connection with the Offer, or (ii) would render illegal the performance by the underwriter of its underwriting obligations hereunder;<br><br>f. Any significant, adverse, and unforeseeable change or development in the Issuer's long-term financial condition, assets, liabilities, results of operations, business, properties, or profitability, which renders the Offer Shares unsuitable for offering to the public;<br><br>g. The Issuer decides to or is compelled to stop its operations which is not remedied within five (5) Business Days;<br><br>h. The Issuer shall be adjudicated bankrupt or insolvent, or shall admit in writing its inability to pay its debts as they mature, or shall make or threaten to make an assignment for the benefit of, or a composition or assignment with, its creditors or any class thereof, or shall declare or threaten to declare a moratorium on its indebtedness or any class thereof; or (ii) the Issuer shall apply for or consent to the appointment of any receiver, trustee or similar officer for it or for all or any substantial part of its property; or (iii) such receiver, trustee or similar officer shall be appointed; or (iv) the Issuer shall initiate or institute (by petition, application or otherwise howsoever), or consent to the institution of any bankruptcy, insolvency, reorganization, rehabilitation, arrangement, readjustment of debt, suspension of payment, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or (v) any such proceeding shall be instituted against the Issuer; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against any material asset, or material part thereof, of the Issuer; or (vi) any event occurs which under the laws of the Philippines or to other jurisdictions, or any applicable political subdivision thereof, has an effect equivalent to any of the foregoing;<br><br>i. A general banking moratorium is declared in the Philippines or a material disruption in commercial banking or securities settlement or clearance services occurs in the Philippines; |

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| | j. Any court proceeding, litigation, arbitration or other similar proceeding is commenced or threatened against the Underwriter in connection with or with respect to the issuance or sale by the Issuer of the Offer Shares or the Offer in general which renders the performance of their underwriting commitment impossible or impracticable;<br><br>k. Any event occurs which makes it impossible for the Underwriter to perform their underwriting obligations due to conditions beyond their control, such as issuance by any court, arbitral tribunal, or government agency which has jurisdiction on the matter of an order restraining or prohibiting the Underwriter, or directing the Underwriter to cease, from performing their underwriting obligations;<br><br>l. Any representation, warranty or statement of the Issuer in the Prospectus shall prove to be untrue or misleading in any material respect or Issuer shall be proven to have omitted a material fact necessary in order to make the statements in the Prospectus not misleading, which untruth or omission:(a) was not known and could not have been known to the Underwriter on or before commencement of the Offer Period despite the exercise of due diligence, and (b) has a material and adverse effect on the Issuer's long-term financial condition, assets, liabilities, results of operations, business, properties, or profitability;<br><br>m. Unavailability of PDTC and PSE facilities used for the Offer and/or Listing and such unavailability impacts the ability of the Issuer and Underwriter to fully comply with the listing requirements of PSE; and<br><br>n. Any force majeure event, other than the ones enumerated above, that has material and adverse effect on the Issuer's long-term financial condition, assets, liabilities, results of operations, business, properties, or profitability.<br><br>The Offer shall not be withdrawn, cancelled, suspended, or terminated solely by reason of the Issuer's or Underwriter's inability to sell or market the Offer Shares or refusal or failure to comply with any undertaking or commitment by the Issuer, the underwriter, or any other entity/ person to take up any shares remaining after the Offer Period.<br><br>Notwithstanding the acceptance of any Application, the actual issuance of the Offer Shares to an Applicant shall take place only upon the listing of the Offer Shares on the PSE. Subject to the right of the Company to withdraw or cancel the offer and sale of the Offer Shares prior to Listing Date pursuant to this section and the "Plan of Distribution - Withdrawal of the Offer" of the Prospectus, the Company and any of its agents involved in the Offer undertake to comply with all conditions that are within the control of the Company and any of its agents involved in the Offer, to ensure the listing of the Offer Shares on Listing Date.<br><br>Notwithstanding the foregoing, the Company and the Underwriter recognize and acknowledge that the PSE, in the exercise of its authority as a self-regulatory organization and further to its mandate to maintain a fair and orderly market, may impose appropriate sanctions and penalties on the Company and/or the Underwriter for the cancellation of the Offer if subsequently, the PSE makes a determination that the cancellation or suspension of the offer and/or the underwriting commitment was not warranted based on the facts gathered by PSE after proper evaluation. |
| Refunds for the Offer | In the event that the number of Offer Shares to be received by an applicant, as confirmed by the Sole Underwriter, is less than the number covered by its application, or if an application is rejected by the Company, the Sole Underwriter shall refund, without interest, within five (5) banking days from the end of the Offer Period, all or a portion of the payment corresponding to the |

<table>
<tr><td></td><td>number of Offer Shares wholly or partially rejected. All refunds shall be made through the Receiving Agent with whom the applicant has filed the application, at the applicant’s risk.</td></tr>
<tr><td>Registration and Lodgment of Shares with PDTC</td><td>The Offer Shares purchased by Applicants will be lodged with the Philippine Depository and Trust Corp. (“PDTC”).<br><br>The Applicant must provide the required information in the Application for the PDTC lodgment of the Offer Shares. The Offer Shares will be lodged with the PDTC at least three (3) trading days prior to the Listing Date.</td></tr>
<tr><td>Risks of Investing</td><td>Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer Shares. Certain of these risks are discussed in the section entitled Risk Factors and include risks relating to the Company’s business, risks relating to the Philippines risks relating to the Offer and the Offer Shares, and risks relating to certain statistical information in this Prospectus.</td></tr>
<tr><td>Expected Timetable</td><td>The timetable of the Offer is expected to be as follows:<br><br>
<table>
<tr><td>Bookbuilding Period</td><td>January 23 – January 31, 2025</td></tr>
<tr><td>Price Setting Date</td><td>February 3, 2025</td></tr>
<tr><td>Notice of Final Offer Price to the SEC and PSE</td><td>February 4, 2025</td></tr>
<tr><td>Start of the Offer Period</td><td>February 10, 2025</td></tr>
<tr><td>Submission of Firm Order and Commitments by PSE Trading Participant</td><td>February 12, 2025</td></tr>
<tr><td>End of the Offer Period</td><td>February 14, 2025</td></tr>
<tr><td>Listing Date</td><td>February 24, 2025</td></tr>
</table>
<br>The dates included above are subject to the approval of the PSE and the SEC, subject to market and other conditions, and may be changed at the discretion of the Company, and Sole Underwriter, subject to the approval of the SEC and PSE.</td></tr>
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# SUMMARY OF FINANCIAL INFORMATION

The following tables present the summary of financial information and should be read in conjunction with the independent auditor's reports and the Company's financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations. The summary financial information as of and for the years ended December 31, 2021, 2022, and 2023 and financial period ending September 30, 2024 was derived from the Company's consolidated audited financial statements, which were prepared in accordance with PFRS. The Company's financial statements for the years ended December 31, 2021, and 2022 were audited by KPMG, while the Company's financial statements for the year ended December 31, 2023 were audited and for the period September 30, 2024 were reviewed by VACO, in accordance with the PSA. The summary financial information presented below for the years ended December 31, 2021, 2022 and 2023 and for the period ended September 30, 2024 were derived from the Company's consolidated audited financial statements. The summary financial information below is not necessarily indicative of the results of future operations.

**AUDITED FINANCIAL STATEMENTS FOR PERIODS ENDED DECEMBER 31, 2021, 2022, AND 2023.**

| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION in Php thousands | For the years ended December 31, | | |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| **ASSETS** | | | |
| Cash | 65,853 | 49,609 | 113,041 |
| Receivables - current | 424,786 | 861,271 | 852,708 |
| Inventories, net | 642,676 | 1,888,460 | 2,040,582 |
| Prepaid expenses and other current assets - net | 132,946 | 197,394 | 267,941 |
| Assets held for sale | 120,600 | 120,600 | 47,896 |
| **Total current assets** | **1,386,861** | **3,117,334** | **3,322,168** |
| PPE, net | 546,092 | 873,317 | 775,385 |
| Right of use assets - net | 32,640 | 24,870 | 19,308 |
| Investments in equity instruments | 105,712 | 99,089 | 135,229 |
| Other non-current assets | 9,328 | 3,619 | 6,317 |
| **Total noncurrent assets** | **693,772** | **1,000,895** | **936,239** |
| **Total assets** | **2,080,633** | **4,118,229** | **4,258,407** |
| **LIABILITIES AND EQUITY** | | | |
| Trade payables and other current liabilities | 571,784 | 2,037,233 | 1,869,811 |
| Due from related parties | 67,622 | 59,620 | 47,883 |
| Loans payable | 521,747 | 723,388 | 942,134 |
| Lease liabilities - current | 6,755 | 6,677 | 9,403 |
| Income tax payable | - | - | 3,210 |
| **Total current liabilities** | **1,167,908** | **2,826,918** | **2,872,441** |
| Loans payable - noncurrent | 130,401 | 504,970 | 468,231 |
| Lease liabilities - noncurrent | 27,585 | 20,876 | 12,812 |
| Retirement benefits liabilities | 7,385 | 9,904 | 13,940 |
| Deferred tax liabilities - net | 16,075 | 1,316 | - |
| **Total noncurrent liabilities** | **181,446** | **537,066** | **494,983** |
| **Total liabilities** | **1,349,354** | **3,363,984** | **3,367,424** |
| Capital stock | 1,418,812 | 1,418,812 | 1,418,812 |
| APIC | 408,423 | 408,423 | 408,423 |
| Reserve for retirement benefits liabilities | 1,211 | 204 | 204 |
| Net unrealized loss on investments in equity instruments | 10,646 | (3,346) | 6,003 |
| Deficit | (1,107,813) | (1,069,848) | (942,459) |
| **Total equity** | **731,279** | **754,245** | **890,983** |
| **Total liabilities and equity** | **2,080,633** | **4,118,229** | **4,258,407** |

| CONSOLIDATED STATEMENTS OF INCOME<br>in Php thousands | For the years ended December 31,<br>2021 | <br>2022 | <br>2023 |
|---|---|---|---|
| Total revenues | 1,276,505 | 2,205,413 | 3,406,867 |
| Total costs | (1,139,846) | (1,823,634) | (2,956,394) |
| **Gross profit** | **136,659** | **381,779** | **450,473** |
| Operating expenses | (115,079) | (268,133) | (369,432) |
| **Operating income** | **21,580** | **113,646** | **81,041** |
| Other income (expenses) | 12,183 | (36,722) | 174,743 |
| Finance charges | (14,814) | (45,934) | (81,578) |
| **PBT** | **18,949** | **30,990** | **174,206** |
| Income tax expense | (984) | (2,635) | (56,424) |
| **Net profit** | **17,965** | **28,355** | **117,782** |

| CONSOLIDATED STATEMENTS OF CASH FLOWS<br>in Php thousands | For the years ended December 31,<br>2021 | <br>2022 | <br>2023 |
|---|---|---|---|
| Cash flows from operating activities | 139,997 | (99,641) | (126,705) |
| Cash flows from investing activities | (160,640) | (476,611) | (95,728) |
| Cash flows from financing activities | 42,722 | 540,008 | 285,865 |
| Cash, beg | 43,774 | 65,853 | 49,609 |
| **Cash, end** | **65,853** | **49,609** | **113,041** |

**REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2024.**

| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION<br>in Php thousands | For the financial period ending September 30,<br>2024 |
|---|---|
| **ASSETS** | |
| Cash | 100,924 |
| Receivables - current | 680,445 |
| Inventories, net | 2,211,908 |
| Prepaid expenses and other current assets - net | 787,405 |
| Assets held for sale | 0 |
| **Total current assets** | **3,780,682** |
| PPE, net | 853,508 |
| Right of use assets - net | 19,308 |
| Investments in equity instruments | 184,405 |
| Other non-current assets | 5,877 |
| **Total noncurrent assets** | **1,063,098** |
| **Total assets** | **4,843,780** |
| **LIABILITIES AND EQUITY** | |
| Trade payables and other current liabilities | 2,284,673 |
| Due from related parties | 46,140 |
| Loans payable | 1,010,884 |
| Lease liabilities - current | 9,403 |
| Income tax payable | 40,335 |
| **Total current liabilities** | **3,391,435** |
| Loans payable - noncurrent | 447,409 |
| Lease liabilities - noncurrent | 12,812 |
| Retirement benefits liabilities | 21,888 |
| Deferred tax liabilities - net | - |
| **Total noncurrent liabilities** | **482,109** |
| **Total liabilities** | **3,873,544** |

| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION in Php thousands | For the financial period ending September 30, 2024 |
|---|---|
| Capital stock | 1,418,812 |
| APIC | 408,423 |
| Reserve for retirement benefits liabilities | 204 |
| Net unrealized loss on investments in equity instruments | 26,398 |
| Deficit | (883,601) |
| **Total equity** | **970,236** |
| **Total liabilities and equity** | **4,843,780** |

| CONSOLIDATED STATEMENTS OF INCOME in Php thousands | For the financial period ending September 30, 2023 | 2024 |
|---|---|---|
| Total revenues | 2,613,675 | 2,391,656 |
| Total costs | 2,273,257 | (1,931,934) |
| **Gross profit** | **340,418** | **459,722** |
| Operating expenses | (253,209) | (261,339) |
| **Operating income** | **87,209** | **198,383** |
| Other income (expenses) | 159,529 | 29,994 |
| Finance charges | (41,576) | (66,095) |
| **PBT** | **205,162** | **162,282** |
| Income tax expense | - | (62,955) |
| **Net profit** | **205,162** | **99,327** |

| CONSOLIDATED STATEMENTS OF CASH FLOWS in Php thousands | For the financial period ending September 30, 2023 | 2024 |
|---|---|---|
| Cash flows from operating activities | (55,530) | 165,286 |
| Cash flows from investing activities | (41,084) | (222,436) |
| Cash flows from financing activities | 210,209 | 45,033 |
| Cash, beg | 49,609 | 113,041 |
| **Cash, end** | **163,204** | **100,924** |

## KEY FINANCIAL RATIOS

| Key Financial And Operating Ratios | For the years ended December 31, 2021 | 2022 | 2023 | For the financial period ending September 30, 2024 |
|---|---|---|---|---|
| Current Ratio [3] | 1.2x | 1.1x | 1.2x | 1.1x |
| Liabilities to Equity Ratio[4] | 1.9x | 4.5x | 3.9x | 4.0x |
| Gross Profit Margin (%)[5] | 10.70% | 17.30% | 13.20% | 19% |
| Before Tax Return on Sales (%)[6] | 1.50% | 1.40% | 5.10% | 6.8% |
| Earnings per Share[7] | 0.01 | 0.02 | 0.08 | 0.07 |
| Earnings before Interest, Taxes, Depreciation & Amortization[8] | 146,137 | 238,259 | 434,142 | 351,778 |
| Return on Equity[9] | 2.50% | 3.80% | 14.30% | 9.3% |

3 Current Assets / Current Liabilities
4 Total Liabilities/Stockholders' Equity
5 Gross Profit/Revenues
6 Profit Before Tax/Revenues
7 Net Income/Outstanding Shares
8 Net Income plus Interest Expenses, Provision for Income Tax, Depreciation and Amortization
9 Net Income / Average Stockholders' Equity; ROE for the financial period ending September 30, 2024 was calculated using the trailing 12 months' net income.

# RISK FACTORS

An investment in the Offer Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not indicative of future performance and results, and there may be a large difference between the buying price and the selling price of any security. For investors that deal in a range of investments, each investment carries a different level of risk.

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated or that are currently considered immaterial, could have a material adverse effect on the Company's business, financial condition and results of operations and cause the market price of the Common Shares to decline. All or part of an investment in the Offer Shares could be lost.

The means by which the Company intends to address the risk factors discussed herein are principally presented under the captions Business, particularly under Competitive Strengths, Management's Discussion and Analysis of Financial Condition and Results of Operations, Industry, and Board of Directors and Senior Management—Corporate Governance of this Prospectus. This risk factor discussion does not purport to disclose all of the risks and other significant aspects of investing in the Common Shares. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in the trading of securities. Investors may request publicly available information on the Common Shares and the Company from the SEC. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to STN's business, results of operations, financial condition and prospects

## RISKS RELATING TO THE COMPANY AND ITS BUSINESS

**The Company operates in a highly competitive and commodified industry.**

Based on an industry study rendered by Euromonitor, the Philippine corrugated box industry is highly fragmented with multiple competitors. Notably, due to the abundance of competition, the current industry dynamics favor buyers[10]. Increasing competition may translate to erosion of profit margins and subsequently weigh on the Company's profitability.

STN believes that it can manage these pressures by leveraging on its key competitive advantages. Notably, Steniel is the oldest operating packaging manufacturer in the Philippines. As a result, the Company enjoys an established brand with a proven reputation for quality – notably, Steniel caters to the Discerning Buyers as described by Euromonitor[11]. The Company maintains a robust supply chain and continuously invests in new technologies and an in-house quality assurance laboratory to ensure the quality of its products and stability of production. As a result, Steniel caters to the requirements of highly exacting FMCGs and fruit exporters. The Company continues to maintain strong relationships with its clients through its established reliablity, quality products, stable operations, and a strong emphasis on customer satisfaction.

[10] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines.
[11] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines. Discerning Buyers are described by Euromonitor as "[Buyers] who seek packaging stability and strict adherence to specifications".

The Company also has strategically located production facilities intended to cater to the Mindanao region. Note that the relatively low value of corrugated boxes make it uneconomical to ship corrugated boxes across long distances. Moreover, its close geographic proximity to clients allows it to respond to customer requirements quickly. As such, Steniel believes that it is well-positioned to overcome competitive forces.

A more detailed discussion of these competitive strengths is provided in the Business section – Competitive Advantages of this Prospectus.

**The Company's revenues are highly dependent on the long-term supply agreement with a key customer**

In 2021, the Company executed a long-term supply agreement ("**LTSA**") with a key customer which is tied to the acquisition of the Carmen Plant. Under the LTSA, STN will provide the customer with supply boxes and packaging materials for nine years and six months starting from August 24, 2022 until February 23, 2032. As of the nine months ended September 30, 2024, this customer accounted for almost 50.0% of total revenues. As such, the loss of this customer, or a significant decline in this customer's business, may have a material impact on the Company's profitability.

To mitigate this risk, the Company has executed the LTSA which contractually obligates the customer to purchase a minimum volume of packaging materials from STN. As such, Steniel is provided stability of revenues, as well as visibility on its cashflows. This also allows the Company to reinforce its market position and reduce the risk of revenue volatility. Additionally, to ensure that it maintains good relations with its key customer, STN utilizes the Carmen Plant, which was previously owned by the key customer. Further, to ensure seamless transition of the Carmen Plant from the previous owner to Steniel, Steniel also absorbed majority of the former employees of the plant. These factors make STN its most reliable and accessible supplier for its packaging requirements. Lastly, for their mutual protection, the Company and the key customer agreed to pay liquidated damages in the event of pre-termination, with or without cause, initiated by any of the parties.

Moreover, the Company's management believes that they offer a quality product at a cost-competitive price. As noted by Euromonitor[12], Steniel's ability to cater to "Discerning Buyers" evidences the quality of STN's products. The Company caters to a broad roster of customers dealing in high value goods such as FMCGs, other agricultural products and processed food.

Steniel's plants are also strategically located in key areas within the Davao region. This minimizes logistics costs and ensures that STN can flexibly react to customers' requirements. This acts as a significant competitive advantage and positions the Company as a supplier of choice for its customers.

Finally, the Company is continuously developing its customer base to further diversify its clientele. This will minimize its reliance on any key customer.

A more detailed discussion on the LTSA can be found the Business Section – Material Contracts and Agreements section of this Prospectus, while a more detailed discussion of the Company's customers can be found on the Business Section – Customers section of this Prospectus.

**The Company relies on key raw materials, and the cost and availability of these products may significantly affect its profitability.**

The Company's margins depend on the selling prices that it is able to charge for its products and the costs of the raw materials and other inputs that it requires to produce these products. Paper is the primary raw material used by STN in its corrugated boxes, and represents a substantial portion of the Company's costs. The price of these raw materials is influenced by factors that the Company cannot control, such as market conditions, general global economic and geopolitical conditions, production capacity in the markets, production constraints on the part of the Company's suppliers, fluctuations in oil or other commodity prices, infrastructure failures, political conditions, weather conditions, regulations and other factors.

[12] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines. Discerning Buyers are described by Euromonitor as "[Buyers] who seek packaging stability and strict adherence to specifications".

In addition, the raw materials that the Company requires may be unavailable in adequate quantities at commercially reasonable terms in the future. Furthermore, any late deliveries of strategic raw materials may cause delays in the completion of certain of the Company's products or product components. Therefore, operational interruptions resulting from supply shortages, or delayed deliveries of certain raw materials can adversely affect the Company's profitability.

To protect itself against adverse movements in the prices of raw materials, the Company usually maintains a raw materials inventory equivalent to around four (4) months worth of production in its warehouse, and maintains three (3) to four (4) months of inventory in transit. STN also maintains a warehouse in Panabo, Davao del Norte.

The Company also maintains strong relationships with major suppliers globally to ensure a stable supply of key input products. Also, in the event that any of the Company's suppliers is subject to a major production disruption or is unable to meet its obligations under existing supply arrangements, the Company can purchase such inputs from any of its other accredited local and foreign suppliers that the Company had already dealt with in the past. The Company also has a list of approved alternative materials that can substitute the raw materials it currently uses.

**The Company relies on specialized equipment that requires significant capital expenditure, maintenance work, and may become obsolete.**

To manufacture its products, the Company employs specialized machinery and equipment imported from various suppliers globally and this represents a significant capital investment for the Company. Notably, STN relies on its box making and corrugating machines to manufacture its corrugated boxes. However, the manufacturers of these machines are continually developing new machineries that aims to improve production capacity, yield, or reduce wastage. This could significantly affect the Company's production, competitiveness, and overall operations. Moreover, the Company may have to routinely invest significant amounts of capital to expand its production capacity and to maintain the usefulness of its machines.

To mitigate this, the Company continuously researches on new technologies available to ensure that its production capacity remain competitive. Moreover, the Company has its own service maintenance teams deployed in its plants that conduct routine monitoring and repairs on its equipment to ensure that it continually runs in optimal condition. STN also conducts yearly business planning to carefully evaluate potential expansion plans and when necessary, deploy investment capital to maintain its competitiveness.

**The Company's manufacturing processes may be subject to operational failures or quality assurance issues.**

The Company's products are used for the packaging of high value fresh fruits, packaged food, and other FMCGs. Given the highly competitive nature of STN's industry, the quality of the products will need to adhere to certain standards to ensure its reliability and effectiveness.

The Company's customers will return any products which do not meet the agreed-upon specifications. This, in turn, will increase the wastage of the Company as well as result in financial losses. Moreover, poorer quality products may affect how the Company's customers perceive its products and have a material adverse effect on the Company's business, operations, and financial condition.

The Company has a dedicated procurement team focused on sourcing top-quality raw materials to ensure the strength and durability of its products. The Company also maintains a robust supply chain with multiple redundancies to ensure a stable supply of quality input materials. Moreover, the Company has established quality assurance and control procedures to ensure that its products are in line with the specifications set by its customers. Steniel owns and maintains on-site testing equipment to ensure the quality of its products.

The Company also has a preventative and corrective maintenance program to minimize downtime. The Company's Bunawan Plant, Carmen Plant, and Gensan Plant have an average uptime rate of approximately 75%, 70%, and 70%, respectively. Moreover, the Bunawan Plant and Carmen Plant are strategically located within 30 kilometers of one another – this provides further redundancies in the event of plant downtime.

**The Company may be subject to labor issues.**

As of September 30, 2024, STN and the STN Subsidiaries collectively have 255 regular employees, 18 probationary employees, and 310 contractual employees, totaling 583 employees. As with labor intensive industries, the Company may be exposed to the risk of industrial or labor disputes. The employees of the Carmen Plant have short tenures, having been absorbed from the previous owner and operator. Meanwhile, the employees of the Bunawan Plant are currently subject to a collective bargaining agreement.

Nevertheless, management maintains very good relationships with its employees. The Company has had a long history of harmonious labor relationships, with management actively participating in labor management and relationship building activities. The Company has no pending labor cases filed with the Department of Labor and Employment and has had no labor strikes since the STN Principals took over.

**The Company relies on a stable source of power, and potential shortages may significantly affect its operations.**

All of the Company's manufacturing equipment is powered by electricity. Hence, the Company is dependent on a stable supply of energy to continue operating. The lack of electricity will translate to operational downtime and translate to financial losses and penalties with customers. Any downtime of the Company's operations over an extended period, due to power interruptions, would have a material adverse effect on the Company's business, operations, and financial condition.

As of September 30, 2024, the Company continues to source its energy directly from Davao Light and Power Company augmented by Solar Power Energy and does not have any retail energy supply agreements in place. There is no assuance that such distribution utilities will not curtail energy supply in the area due to technical maintenance, infrastructure upgrades, transmission limitations, distribution disruptions due to force majeure events. In such circumstances, plant operations of the Company can be affected.

To address these concerns, the Company has a standby generator equipment in its production plants that are regularly maintained. The generator sets provide backup power to ensure continuous production. The Carmen Plant also has solar panels to support the Company's sustainability efforts and to lessen its carbon footprint. Moreover, the plants are situated in areas where historically there are fewer unplanned power interruptions. As such, Steniel is able to build up inventory if there is a planned power interruption to ensure continuous delivery to its customers.

**The Company may be unsuccessful in implementing its growth strategy.**

Euromonitor noted that demand for corrugated boxes is expected to grow at a CAGR of 7.3% between 2023 and 2028. As such, Steniel is looking to expand its business by continuing to develop its existing faciltiies, developing new production facilities, as well as assess opportunistic acquisitions.

The Company's success in implementing this strategy will depend on, among others, its ability to: (a) identify and assess potential opportunities, investments, acquisitions; (b) successfully finance, close, and integrate such investments and acquisitions; and (c) control costs and maintain sufficient operation and financial controls. This growth strategy will place significant demands on the Company's management and other resources. The Company's future growth and financial prospects may be adversely affected if these investments and acquisitions prove unsuccessful.

The Company's development of new projects is further subject to substantial risks that could give rise to delays, unanticipated cost overruns, unsatisfactory construction, or development, or the total or partial loss of the company's interest in the project under development, construction, or expansion. Such risks to development include but are not limited to:

- The need to incur expenses for preliminary engineering, permits, and legal and other expenses before determining whether a project is feasible, economically attractive, or capable of being financed;
- The inability to secure adequate construction financing;

- Shortages and insufficient quality of equipment, materials, and labor and the breakdown or failure of equipment or processes;
- Social unrest and terrorism;
- Engineering and environmental problems;
- Construction and operational delays or unanticipated cost overruns;
- Regulatory and quasi-regulatory constraints;
- Failure by key contractors and vendors to timely and properly perform their obligations; and,
- Material changes in the business environment of the Company.

While most of the events listed above are outside the control of the Company, it still endeavors to reduce the potential of such risks to occur. The Company has a strong management team that has decades of experience in the industry. Steniel's management team carefully evaluates all potential opportunities and creates a detailed plan prior to investing.

A more detailed discussion of Steniel's management team is provided in the Business section – Competitive Advantages of this Prospectus.

**The Company's subsidiaries depend on supplier and bank credit**

STN's operations, through its operating subsidiaries SMPC and SCPC (collectively, the "STN Subsidiaries") have intensive working capital requirements. Notably, a significant portion of its assets are booked as inventory – as of the financial periods ending December 31, 2023 and September 30, 2024, inventory accounts for approximately 47.9% and 45.7% of the Company's consolidated total assets. STN maintains high inventory levels to ensure stable production.

Due to the creditworthiness of the STN Subsidiaries, and its strong relationships with counterparties, they were able to negotiate favorable credit terms from its suppliers and lenders. This helps STN Subsidiaries manage its working capital requirements, mainly through supplier credit and short-term bank debt. As of the financial period ending December 31, 2023 and September 30, 2024, the Company has a total liabilities-to-equity ratio of 3.8x and 4.0x, respectively.

In 2021, the STN Subsidiaries, together with an affiliate, secured a P2 billion 7-year loan for the acquisition of the box and printing plants of Dole Philippines Inc. ("Dole"), the parcels of land where the plants are situated, and all machineries and equipment used in the plant operations. The loan was fully drawn by SCPC and the affiliate. SMPC did not draw on the loan.

The borrowers are required to maintain the following financial covenants until full payment of the loan: debt to service coverage ratio of at least 1.25x, a total debt-to-equity ratio of 1.5 to 1, and a debt to EBITDA of no more than three (3) times. Failure to comply with these covenants may result in the STN Subsidiaries being called in default by its lenders. However, while the STN Subsidiaries were not compliant with the financial ratios as at December 31, 2021, 2022 and 2023, they are up to date in the payment of its amortizations and have not been called in default.

STN manages these risks by closely monitoring the working capital requirements of its operations. The Company conducts periodic reviews of credit terms extended to customers and accounts for this in its capital planning sessions.

Management also ensures that the Company is able to maintain sufficient cash to settle its near-term liabilities, including its obligations under the aforesaid loan. The Company's current ratio as of the financial period ending December 31, 2023 is 1.2x, while the current ratio for the nine months ended September 30, 2024 is 1.1x.

**The Company's subsidiaries are exposed to customer credit risk, and payment default could have a material adverse effect on its financial condition, results of operations and liquidity.**

As in other businesses, STN through its subdiaries are exposed to credit and collections risks. Customers could experience cash flow difficulties or become subject to liquidation that could in turn lead to the STN Subsidiaries being unable to collect payments or experiencing long delays in collection of payments, if at all. There can be no assurance that all customers will pay in a timely manner or at all. In such circumstances, the working capital needs may increase. If a large amount of customers is unable or unwilling to pay, the financial condition of STN and its subsidiaries could be negatively affected.

STN maintains billing and collection teams servicing each operational facility. Payment terms range from 60 – 90 days upon receipt of billing invoice. To ensure collection, STN regularly monitors the status of collections of each customer. It also regularly sends reminders to clients of any upcoming payment schedule to ensure timely payments and avoidance of penalties for late payments. Moreover, STN ensures ease of payment to its customers by offering different modes of payment. Payments can be settled through, cash, check or online bank transfers.

**The Company is currently in a retained deficit position which may result in an inability to declare dividends in the near to medium term.**

As of September 30, 2024, the Company has a retained deficit of Php883.6 million. This was due to the accumulated losses of STN prior to the entry of the STN Principals. As a result, the Company may be unable to declare dividends in the near to medium term.

Nevertheless, the Company believes that its competitive advantages and improved operations may translate to better profitability. Note that STN has pared the retained deficit from Php1.1 billion in 2021 to Php883.6 million as of September 30, 2024.

**The Company is dependent on certain members of the board of directors and senior management**

The Company has and will continue to depend on the continued individual and collective contributions and services of its senior management team. Their responsibilities include determination of corporate strategy, discussion and resolution of operational and human resource issues, drafting of necessary policies to enhance operational and control systems, review of the current systems that require updating, and other relevant matters that may, can, or will affect the Company.

The Company believes that it has enough managerial talent that can be tapped to fill in possible vacancies. Moreover, STN is actively engaged in succession planning by hiring and training professional managers experienced in the operations of the Company's business. The Company believes that the loss of one or a few existing senior management figures will have no material adverse impact on the Company's business, operations, and financial condition.

**The Company may be affected by potential legal and administrative proceedings involving it and/or its directors and officers**

Just like any other company, the Company, its directors and officers are exposed to potential legal or administrative proceedings which may affect its financial standing and cause the Company to incur additional costs, and the diversion of resources and management's attention. The business, financial condition, results of operations and cash flows could be materially and adverselt affected.

In the event that such a proceeding is brought against the Company, its directors and officers, the Company will diligently defend against such claims. The Company shall assess the risks and all possible solutions to settle disputes in expeditous and cost-effective manner.

**The Company and its subsidiaries may be involved in legal proceedings**

Legal proceedings pose significant risks to companies. Effects to the company's business and operations may include operational disruptions, as management and key personnel may dedicate their time and resources to handle such legal matters, as well as reputational risk, as negative publicity surrounding legal proceedings may damage a company's reputation and customer loyalty. Further, legal proceedings may have an impact on the financial stability of the company, as it may entail substantial legal fees, costs and expenses, as well as potential settlements and court-ordered judgments.

In the event that the Company is involved in or affected by potential legal proceedings, the Company must take cautious but strategic and proactive steps to address the issues, and at the same time mitigate risks and protect its interests, all in a timely and cost-effective manner.

**The Company engages in a significant amount of related party transactions.**

A portion of the businesses undertaken, and the products distributed by the Company are conducted or manufactured by companies owned or controlled by the STN Principals. The operations of certain companies owned and controlled by STN are interdependent. These related transactions include those described under Related Party Transactions and in the notes to the Company's consolidated financial statements appearing elsewhere in this Prospectus. In the future, the Company may continue to enter into transactions with companies directly or indirectly controlled by or associated with STN Principals for as long as the transactions continue to inure to the benefit of the Company.

The Company treats its related parties just like any other supplier. The terms and conditions entered into by the Company with related parties are competitive and are all done on an arms-length basis. In the event the said related parties cannot service the requirements of the Company, it will turn to other suppliers that have been duly accredited by the Company.

**The interests of the Company's Primary Stockholders may differ from Interests of other Stockholders**

Through direct and indirect interests, STN Principals effectively control the Company and serve in various capacities as directors of the boards and officers of STN. These positions allow the STN Principals to control shareholder decisions and exercise significant control over the strategic direction in the Company. The interests of the STN Principals may differ from the interests of the Company and the Company's other shareholders, and there can be no assurance that they will exercise influence over the Company that is in the best interest of the Company and the other shareholders.

To protect the minority shareholders, major decisions are subject to Board approval which includes independent directors who have established professional track records and work experiences in the field of finance and risk management. All directors are also accomplished professionals in their respective fields. Moreover, the Company has its Manual of Corporate Governance ("**Manual**"), which provides the framework of rules, systems, and processes that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders.

Also, the Company had long adopted a Code of Business Conduct that sets the standards of ethical business practices, protecting integrity and values with third parties, proper conduct outside the Company, outside business activities, non-competition with the Company's business, handling of confidential information, and protection of Company's resources.

**Changes in the environmental regulations may cause the Company to incur significant costs and liabilities.**

The operations of the Carmen, Bunawan, and Gensan plants are subject to environmental laws and regulations by central and local authorities in the areas in which the plants operate. These include laws and regulations pertaining to pollution, the protection of human health and the environment, air emissions, wastewater discharges, occupational safety and health, and the generation, handling, treatment, remediation, use, storage, release and exposure to hazardous substances and wastes. These requirements are complex, subject to frequent change and have tended to become more stringent over time. The Company has incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations and in obtaining and maintaining all necessary permits.

In addition, environmental laws and regulations, and their interpretations, are constantly evolving and it is difficult to predict accurately the effect that changes in these laws and regulations, or their interpretation, may have upon the Company's business, financial condition, results of operations or prospects. If environmental laws and regulations, or their interpretation, become more stringent, the costs of compliance could increase. If STN is unable to pass along future costs to customers, any increases could have a material adverse effect on STN's business, financial condition, results of operations and prospects.

Finally, there can be no assurance that these will at all times be in compliance with all of their respective obligations in the future or that they will be able to obtain or renew all licenses, consents or other permits necessary to continue operations. Any failure to comply with such laws and regulations could subject the relevant operating company to significant fines, penalties and other liabilities, which could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

Nevertheless, STN has procedures in place to allow them to comply with environmental laws and regulations. As of September 30, 2024, STN holds all the material permits and remains compliant with all applicable environmental regulations. For a tabulation of all the permits and licenses of the Company, please refer to the Business – Material Contracts and Agreements section of this Prospectus.

## RISKS RELATING TO THE PHILIPPINES

Risks relating to the Philippines are systemic in nature and outside the Company's control. However, the Company intends to continue to maintain appropriate financial and operational controls and policies within the context of the prevailing business, economic and political environment taking into consideration the interests of its shareholders, customers and other stakeholders.

**The Company faces risks related to the Philippines, which encompass the performance of the Philippine economy.**

The Company's and the STN Subsidiaries' financial performance are affected by the overall state of the Philippine economy, and this influence will persist. The Company's growth and earnings depend somewhat on how well the Philippine economy is doing. In the past, the Philippines has faced slow or negative economic growth, high inflation, peso devaluation, and exchange controls.

Furthermore, global financial markets have experienced disruptions and liquidity problems, which might continue. There is uncertainty about whether the United States and the global economy might continue to decline, which would be likely to negatively affect the Philippine economy. There can be no assurance that current or future governments will adopt policies conducive to sustaining economic growth, and the Company may not be able to effectively manage such systemic risk.

In 2020, the COVID-19 pandemic severely impacted the global economy, including the Philippines. COVID-19 was declared a pandemic by the World Health Organization and spread worldwide over the following years.

Many countries, including the Philippines, implemented measures like lockdowns, social distancing, and business suspensions to contain the virus, significantly affecting businesses and causing a global economic recession. The Philippines had one of the longest and strictest lockdowns globally in 2020, resulting in a 9.6% year-on-year economic contraction, the most severe in decades.

However, the Philippines began to recover in 2021 as it adjusted to the pandemic and initiated COVID-19 vaccine rollouts in March 2021. Despite a negative gross domestic product ("**GDP**") growth of -3.9% in Q1 2021, the economy rebounded in Q2 2021, with a 12.0% year-on-year GDP expansion. This positive trend continued throughout the year, resulting in a 5.6% GDP growth for the full year, surpassing the government's target of 5.0% to 5.5%.

In 2022, despite the ongoing pandemic, increased vaccination rates and eased mobility restrictions allowed the Philippine economy to maintain its GDP growth, with growth rates of 8.2%, 7.5%, and 7.6% in the first, second, and third quarters, respectively. As of Q4 2022, the GDP posted a 7.2% growth, resulting in a full-year growth of 7.6%.

In 2023, the Philippines posted the highest full-year GDP growth rate in Southeast Asia at 5.6%. The growth in the Philippine economy was driven by a resumption in commercial activities, public infrastructure spending, and growth in digital financial services.

Any future deterioration in the Philippine economy could significantly impact the Company's business, financial stability, and operations, including its ability to expand and implement its business strategy.

Changes in Philippine economic conditions could also have adverse effects on the Company's financial position and operations.

Factors that might negatively affect the Philippine economy include decreases in business activities, scarcity of credit, exchange rate fluctuations, rising inflation or interest rates, employment levels, changes in fiscal policies, budget deficits, adverse trends in the current accounts, public health crises, natural disasters, political instability, terrorism, and regulatory or economic developments in the Philippines.

A downturn in the Philippine economy could harm general business conditions, leading to reduced Company and subsidiary revenues, profitability, and cash flows.

**Political instability may have a material adverse impact on the Company's operations and financial condition.**

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, the nullification of the appointment of another chief justice, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy.

In addition, the Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Any major deviation from the policies of the previous administration or fundamental change of direction, including a change in the form of government, may lead to an increase in political or social uncertainty and instability. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company's business.

There is no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not materially and adversely impact the current regulatory environment for manufacturing companies. An unstable political or social environment in the Philippines could negatively affect the general economic conditions and business environment in the Philippines which, in turn, could have a material and adverse impact on STN business, prospects, financial position and financial performance.

No assurance can be given that any changes in such regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to STN's disadvantage, or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could have a material adverse impact on Steniel's results of operations and financial condition.

**All of Steniel's business activities and assets are based in the Philippines, which exposes STN to risks associated with the country, including the performance of the Philippine economy**.

Historically, the Company has derived a substantial portion of its operating income and operating profits from the Philippines and, as such, the Company is highly dependent on the state of the Philippine economy. Demand for its services and products are directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from overseas Filipinos. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls. Other factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;

- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations and/or foreign exchange controls;
- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- Government budget deficits;
- public health epidemics or outbreaks of diseases, such as a worsening or resurgence of the COVID-19 pandemic, a re-emergence of polio, SARS, bird flu, or H1N1, or the emergence of other similar diseases in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- geopolitical tensions between the Philippines and other claimant countries concerning disputed territories in the West Philippine Sea;
- delays in obtaining government approvals and permits;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- political instability, territorial disputes, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect its customers and contractual counterparties. This, in turn, could materially and adversely affect its financial position and operations. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect STN's business, financial condition or operations.

**Natural catastrophes, including severe weather conditions, may materially disrupt the Company's operations and result in losses not covered by insurance.**

The Philippines, which is located along the Pacific Ring of Fire and a typhoon belt, has experienced a number of major natural catastrophes over the years, including typhoons, droughts, floods, volcanic eruptions and earthquakes.

In January 2020, the Taal Volcano entered into a period of intense unrest beginning with phreatic or steam-driven activity in several points inside the Main Crater that progressed into magmatic eruption. The Philippine Institute of Volcanology and Seismology ("**PHIVOLCS**") raised the alert level to Alert Level 4 on January 12, 2020. Pursuant to such events, PHIVOLCS ordered the total evacuation of the Volcano Island and high-risk areas within a 14-kilometer radius from the Taal Main Crater. PHIVOLCS has thereafter lowered the Alert Level covering Taal to Level 1, but subsequently raised it to Alert Level 3 in March 2022 when Taal Volcano erupted again. While Taal Volcano currently has a classification of Alert Level 1, in September 2023, it spewed above average sulfur dioxide and volcanic smog, prompting authorities to close schools in dozens of cities and towns and to urge people to stay indoors. There can be no assurance that the Taal Volcano will not increase seismic activity or erupt in the future.

In December 2021, Super Typhoon Odette/Rai brought strong winds and rain to the Philippines. In October 2022, Tropical Storm Paeng brought strong winds and heavy rains in Mindanao which caused flooding and landslides. Finally in December 2023, Tropical Storm Kabayan/Jelawat brought heavy rains across the Eastern Visayas and Mindanao regions.

The Philippines is also situated in the "Pacific Ring of Fire", a path along the Pacific Ocean characterized by active volcanoes and frequent earthquakes. Recent earthquakes in the region include a 6.7 magnitude earthquake on November 17, 2023 in the province of Sarangani, and a 7.7 magnitude earthquake on December 2023, off the coast of Surigao del Sur.

There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt STN's operations. These factors, which are not within the Company's control, could potentially have significant effects on its operations.

While STN carries insurance for certain catastrophic events, in amounts and with deductibles that the Company believes is in line with general industry practices in the Philippines, there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. However, should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the business, financial position and results of operations of STN.

**Acts of terrorism could destabilize the country and could have a material adverse effect on the Company's business, financial position and results of operations.**

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being responsible for kidnapping and terrorist activities in the Philippines and is also alleged to have ties to the Al-Qaeda terrorist network and, along with certain other organizations, has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines.

Furthermore, the Government and the Armed Forces of the Philippines ("**AFP**") have been in conflict with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front ("**MILF**"), the MNLF and the New People's Army ("**NPA**"). There have been numerous bombing incidents in Mindanao and elsewhere in the Philippines, which have resulted in death and injury to the civilian population as well as military and security personnel.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to STN's business and materially and adversely affect the business, financial condition, and results of operations.

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilize parts of the Philippines and adversely affect the Philippine economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on STN's business, financial condition, and results of operations.

**Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.**

The Philippines, China and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("**UNCLOS**"). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal.
Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line;" (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China has violated the Philippines' sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious and unresolved.

The Government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China. On June 9, 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater reef formation being claimed by both the Philippines and China in the portion of the South China Sea portion that Manila calls the West Philippine Sea. The Filipino fishermen were abandoned in open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines. The owners of the Chinese vessel have since apologized to the Filipino fishermen and remuneration is being arranged for the fishermen.

In March 2021, more than 180 Chinese military vessels were spotted on Julian Felipe Reef in the West Philippine Sea. The presence of the vessels defied a diplomatic protest and a demand for the vessels to leave the area issued by then Philippine Defense Secretary Delfin Lorenzana.

In February 2023, a Chinese Coast Guard ship purportedly harassed a Philippine Coast Guard vessel in the Ayungin Shoal in the West Philippine Sea. In September 2023, the Philippine Coast Guard reported that the Chinese Coast Guard has installed a floating barrier near the Bajo de Masinloc (Scarborough Shoal) in the West Philippine Sea in an attempt to prevent Filipino fishermen from entering the Scarborough Shoal. In a special operation conducted thereafter, the floating barrier was eventually removed by the Philippine Coast Guard.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and STN's operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports.

There is no guarantee that tensions will not escalate further or that the territorial disputes among the Philippines and its neighboring countries, especially China, will cease. In an event of escalation, the Philippine economy may be disrupted and STN's business and financial standing may be adversely affected. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect STN's business, financial condition, and results of operations.

**Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.**

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies than is regularly made available by public companies in the U.S. and other countries. As a result, STN's public shareholders may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Company complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions.

**Volatility in the value of the Philippine Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Company's business.**

The value of the Philippine Peso may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Philippine Peso against the U.S. Dollar and other currencies. As of December 31, 2023, according to the BSP reference exchange rate bulletin, the Philippine Peso was at ₱55.25 per U.S.$1.00 from ₱55.67 per U.S.$1.00 as of December 31, 2022. As of September 30, 2024, the Philippine Peso was at ₱55.89 against the U.S. dollar.

**Investors may face difficulties enforcing judgments against the Company.**

Considering that the Company is organized under the laws of the Republic of the Philippines, it may be difficult for investors to enforce judgments against STN obtained outside of the Philippines. In addition,

majority of the Company's directors and officers are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines.
As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action for the enforcement of a foreign judgment or final order, and without re-trial or re-examination of the issues, only if: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the party against whom the enforcement is sought did not receive notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

**Developments outside of the Philippines, including U.S. policies related to global trade and tariffs could adversely affect the Company's business and operations.**

The current international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. Since 2018, the U.S. began to increase or impose tariffs on many products, particularly from China, including, but not limited to, solar panels, steel and aluminum products, consumer electronics, and industrial chemicals. In response, the European Union, China and other affected jurisdictions have introduced tariffs on U.S. goods. An escalating trade war may have material adverse effects on the power industry and STN's business may be impacted by these tariffs. Any further expansion in the types or levels of tariffs implemented has the potential to negatively impact STN's business, financial condition and results of operations. Additionally, there is a risk that the U.S. tariffs on imports are met with tariffs on U.S. produced exports and that a broader trade conflict could ensue, which has the potential to significantly impact global trade and economic conditions.

Potential costs and any attendant impact on pricing arising from these tariffs and any further expansion in the types or levels of tariffs implemented could adversely affect STN's business, financial condition and results of operations. While there are ongoing discussions between the U.S. and China to reduce tariffs in phases, there is no certainty as to the timing and scale of the reduction in tariffs, and overall impact on global markets.

Economic disruption in other countries, even in countries in which we do not currently conduct business or have operations, could also adversely affect STN's businesses and results. Adverse market and economic conditions continue to create a challenging operating environment for financial services companies. In particular, the impact of interest and currency exchange rates, the risk of geopolitical events, fluctuations in commodity prices and concerns about European stagnation as well as diverging monetary policies among the major economies have affected financial markets and the economy.

In addition to the macroeconomic factors discussed above, other events beyond STN's control, including terrorist attacks, cyberattacks, military conflicts, economic or political sanctions, disease pandemics, political unrest or natural disasters could have a material adverse effect on economic and market conditions, market volatility and financial activity, with a potential related effect on STN's businesses and results.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

Any economic slowdown or deterioration in economic conditions in the Philippines may adversely affect STN's business and operations in the Philippines. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency, imposition of exchange controls, debt restructuring and electricity shortages and blackouts.

**Public health epidemics, such as the COVID-19 pandemic, and outbreaks of diseases along with measures intended to prevent its spread could have a material adverse effect on the Company's business, results of operations, cash flows and financial condition.**

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organization ("**WHO**") declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of Ebola virus infection but was later released after testing negative for the disease. While still Ebola-free, the Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: (a) the considerable number of overseas Filipino workers in the Ebola-hit West African countries;(b) the impact of international travel which raises the probability of transmission; and (c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of WHO terminated the Public Health Emergency of International Concern on the Ebola Virus Disease outbreak.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (i.e., the Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment, and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting. In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans.

In response to the outbreak, restrictions on the transport and sale of birds and poultry products outside a seven-kilometer radius control area surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

In late 2019, COVID-19, an infectious disease that was first reported to have been transmitted to humans in 2019 has spread globally over the course of 2020, and in March 2020, it was declared as a pandemic by the World Health Organization. While the WHO has declared the COVID-19 pandemic to be over in May 2023, there are still active and recurring cases globally, including in the Philippines. In July 2023, the President of the Philippines issued Presidential Proclamation No. 297 effectively lifting the State of Public Health Emergency throughout the Philippines brought about by the COVID-19 pandemic.

The extent of the impact of COVID-19 on the Philippine economy and the speed and certainty of any economic recovery cannot be predicted for certain, and any new surge in infections may result in stricter quarantine or lockdown measures across provinces, cities and municipalities and may lead to further contraction of the Philippine economy, closure of businesses, and rise in unemployment rates.

Since early May 2022, cases of monkeypox have been reported from countries where the disease is not endemic and continue to be reported in several endemic countries. In July 2022, WHO Director-General Tedros Adhanom Ghebreyesus declared the ongoing monkeypox outbreak a Public Health Emergency of International Concern.

In 2023, an outbreak of the Nipah virus was reported in India. According to the WHO, patients who contracted the Nipah virus have a 40% to 75% mortality rate depending on the public health response to the virus. In September 2023, the Department of Health confirmed that there are no cases of Nipah virus in the Philippines.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus, bird flu, polio, COVID-19, monkeypox, Nipah virus, or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect STN's business, financial condition and results of operations.

**The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Company.**

Historically, the Philippines' sovereign debt has been rated non-investment grade by international credit rating agencies. In 2019, the Philippines' long-term foreign currency-denominated debt was upgraded by S&P Global ("**S&P**"), to BBB+ with stable outlook, while Fitch Ratings ("**Fitch**"), and Moody's Investors Service ("**Moody's**"), affirmed the Philippines' long-term foreign currency-denominated debt to the investment-grade rating of BBB and Baa2, respectively, with a stable outlook. On February 28, 2020, Fitch revised its rating of Philippines long-term foreign currency-denominated debt to BBB, with a positive outlook, following its expectation that sound macroeconomic management will continue to support high growth rates with stable inflation while ongoing tax reforms were expected to improve fiscal finances.

On May 7, 2020, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, but revised the outlook to stable, to reflect the deterioration in the Philippines' near-term macroeconomic and fiscal outlook as a result of the impact of the COVID-19 pandemic and domestic lockdown to contain the spread of the virus. In May 2020, S&P and Moody's affirmed their ratings of BBB+ and Baa2, with stable outlook, respectively, for the Philippines' long term foreign currency-denominated debt. In November 2022, S&P's affirmed its rating of BBB+, with stable outlook, for the Philippines' long-term foreign currency-denominated debt. In February 2022, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, with a negative outlook. In September 2022, Moody's affirmed its rating of Baa2, with stable outlook. As of November 2023, S&P maintained its BBB+ long-term credit rating for the Philippines with a stable outlook, as well as an A-2 short-term credit rating for the Philippines.

The Government's credit ratings directly affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, S&P, or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have a material adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including STN, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

## RISKS RELATING TO THE OFFER AND THE OFFER SHARES

**Upon listing with the PSE, the Common Shares will be subject to PSE rules and regulations, which amendments thereto may adversely affect the Common Shares.**

From time to time, the PSE may issue changes to rules and regulations applicable to the Company which may affect the trading of the Common Shares. The PSE has recently proposed amendments to, among others, revise the criteria on what constitutes public and non-public shares by removing "purpose of investment" as a criterion, and categorically characterizing 10% ownership of the outstanding common shares in a listed company as "significant shareholdings". Given this, the shares held by investors that constitute at least 10% of the outstanding common shares in a listed company may now be deemed privately held, regardless of the purpose of such investment in the listed company.

This change increases the exposure of the Company to breach the requirement on the minimum public ownership ("**MPO**"), which may result a trading suspension and, if not rectified, delisting. In turn, this exposes investors to risks of being unable to trade their shares, and limits the extent of their potential investments, considering that there is now a proposed quantifiable threshold that may determine whether shares are publicly or privately held.

**The market price of the Common Shares may be volatile, which could cause the value of investors' investments in the Common Shares to decline.**

The Philippine securities markets are substantially smaller, less liquid, and more volatile relative to major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets are. The Offer Price could differ significantly from the price at which the Common Shares will trade subsequent to completion of the Offer. There is no assurance that investors may sell the Offer Shares at prices or at times deemed appropriate.

The market price of the Common Shares could be affected by several factors, including: volatility in stock market prices and volume; fluctuations in STN's consolidated revenue, cash flow and earnings; general market, political and economic conditions; changes in earnings estimates and recommendations by financial analysts; differences between STN's actual financial and operating results and those expected by investors and financial analysts; changes in market valuations of listed stocks in general and other retail stocks in particular; the market value of STN's assets; market news and rumors; changes to Government policy, legislation or regulations; changes in STN's relationships with regulators; STN's dividend policy; future sales of STN's equity or equity-linked securities; and general operational and business risks.

**In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Common Shares.**

In part as a result of recent global economic downturns, the global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these could adversely affect the market price of the Common Shares. There is no assurance that the Company will be able to manage such risk.

The PSE recently announced the immediate effectivity of its guidelines for short selling transactions, following regulatory support by the SEC. Pursuant to this development, investors may opt to take advantage of declining market prices of eligible securities. These eligible securities, however, only includes member companies of the PSE index and exchange traded funds, which criteria may be subject to review and amendment by the PSE from time to time.

**There can be no guarantee that the Offer Shares will be listed on the PSE, or that there will be no regulatory action that could delay or affect the Offer.**

Purchasers of the Trading Participants and Retail Offer Shares will be required to pay for such Offer Shares on the Trading Participants and Retail Offer Settlement Date, which is expected to be on or about [●] and purchasers of the Institutional Offer Shares will be required to pay on the Institutional Offer Settlement Date, which is expected to be on or about [●]. There can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares onto the PSE, the market for the Offer Shares will be illiquid and shareholders may not be able to trade the Offer Shares. This may materially and adversely affect the value of the Offer Shares.

**The Offer Shares may not be a suitable investment for all investors.**

Each prospective investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each prospective investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Company and its business, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency; (iv) understand and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

**Future sales of shares in the public market could adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings.**

In order to finance the expansion of the Company's business and operations, the Board will consider the funding options available to them at the time, which may include the issuance of new shares. In accordance with Article Eleventh of the Company's Articles of Incorporation, the Company's stockholders shall have no pre-emptive right to subscribe to any issue or disposition of shares of any class. While the Revised Corporation Code of the Philippines and the listing rules of the PSE provide for some degree of minority shareholders' protection, if additional funds are raised by STN through the issuance of new equity or equity-linked securities other than on a *pro rata* basis to existing shareholders such as through a share rights offer, the percentage ownership of existing shareholders may be reduced, shareholders may experience subsequent dilution or such securities may have rights, preferences and privileges senior to those of the Offer Shares.

Further, the market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares in the public market or significant sales, including by STN's shareholders, or the issuance of new shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Common Shares or the Company's ability to raise capital in the future at a time and at a price the Company deems appropriate.

Under the Revised Rules on Backdoor Listing, (i) shares acquired pursuant to the transaction giving rise to backdoor listing shall be locked up from closing or completion of the transaction until six (6) months after the conduct of the public offering and (ii) shares held by stockholders owning at least ten percent (10%) of the total issued and outstanding shares shall be locked up for one (1) year from closing or completion of the transaction giving rise to backdoor listing. In STN's case, the transaction giving rise to the backdoor listing was the Company's reacquisition of SMPC occurred in 2019 and the 269,250,000 shares issued in relation thereto were issued on December 20, 2020. Hence, the lock-up requirement does not apply to STN.

Nonetheless, certain shareholders have agreed with the Issue Manager and Sole Underwriter that they will not, without the prior written consent of the Manager and Sole Underwriter, sell, assign or in any manner dispose of their Shares for a minimum period of 180 days after the Listing Date. To implement the lock-up requirement, the Company and the foregoing shareholders shall enter into an escrow agreement with RCBC Trust, the Escrow Agent for the Lock-Up Shares.

Except for such restrictions, there is no restriction on STN's ability to issue Common Shares or the ability of any of the Company's shareholders to dispose of, encumber or pledge, their Common Shares, and there can be no assurance that the Company will not issue shares or that such shareholders will not dispose of, encumber or pledge, their common shares.

**Investors may incur immediate and substantial dilution as a result of purchasing Common Shares in the Offer.**

The issue price of the Common Shares in the Offer may be substantially higher than the net tangible book value of net assets per share of the outstanding Common Shares. Therefore, purchasers of Common Shares in the Offer may experience immediate and substantial dilution and the Company's existing shareholders may experience a material increase in the net tangible book value of net assets per share of the Common Shares they own. See the Dilution section of this Prospectus.

**The relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Offer Shares at a suitable price or at a time they desire.**

The Philippine securities markets are substantially smaller, less liquid, and more volatile relative to major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets are. The Offer Price could differ significantly from the price at which the Common Shares will trade subsequent to completion of the Offer. There is no assurance that investors may sell the Offer Shares at prices or at times deemed appropriate.

In recent years, stock markets, including the PSE, have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of STN's Common Shares. There is no assurance that the Company will be able to manage such risk.

**Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.**

The Company's corporate affairs are governed by its Articles of Incorporation and By-Laws and the Revised Corporation Code of the Philippines. The laws of the Philippines relating to the protection of interests of minority shareholders differ in some respects from those established under the laws of more developed countries. Such differences may mean that STN's minority shareholders may have less protection than they would have under the laws of more developed countries.

The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries.

The Revised Corporation Code of the Philippines, however, provides for minimum minority shareholders protection in certain instances wherein a vote by the shareholders representing at least two-thirds of outstanding capital stock is required. The Revised Corporation Code of the Philippines also grants shareholders an appraisal right allowing a dissenting shareholder to require the corporation to purchase his shares in certain instances. Derivative actions are rarely brought on behalf of companies in the Philippines.

Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

**Future changes in the value of the Philippine Peso against the U.S. dollar and other currencies will affect the foreign currency equivalent of the value of the Common Shares and any dividends.**

Fluctuations in the exchange rate between the Philippine Peso and other currencies will affect the foreign currency equivalent of the Philippine Peso price of the Common Shares on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Philippine Pesos by STN on, and the Philippine Peso proceeds received from any sales of, the Common Shares.

The Philippine economy has experienced volatility in the value of the Philippine Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Philippine Peso can be traded and valued freely on the market. As a result, the value of the Philippine Peso underwent significant fluctuations between July 1997 and December 2004 and the Philippine Peso declined from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004. As of December 31, 2023, according to the BSP reference exchange rate bulletin, the Philippine Peso was at ₱55.25 per U.S.$1.00 from ₱55.67 per U.S.$1.00 as of December 31, 2022. As of September 30, 2024, the Philippine Peso was at ₱55.89 against the U.S. dollar.

**The transfer of Offer Shares is restricted in certain jurisdictions which may adversely affect their liquidity and the price at which they may be sold.**

The Offer Shares have not been registered under, and the Company is not obligated to register the Offer Shares under, the U.S. Securities Act or the securities laws of any jurisdiction (other than the Philippines) and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. See the Plan of Distribution section and the Summary of the Offer—Transfer Restrictions section of this Prospectus. The Company has not agreed to or otherwise undertaken to register the Offer Shares in such under the U.S. Securities Act or under the securities laws of any jurisdiction (other than in the Philippines), and the Company has no intention of doing so.

**Overseas shareholders may not be able to participate in STN's future rights offerings or certain other equity issues.**

If STN offers or causes to be offered to holders of the Offer Shares rights to subscribe for Common Shares or any right of any other nature, the Company will have discretion as to the procedure to follow in making such rights available to holders of the Offer Shares or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders. For example, such rights may not be offered to holders of the Common Shares who are U.S. persons (as defined in Regulation S) or have a registered address in the U.S. unless: (i) a registration statement is in effect, if a registration statement under the U.S. Securities is required in order for the Issuer to offer such rights to holders of securities represented by such rights; or (ii) the offer and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the U.S. Securities Act.

The Company has no obligation to prepare or file any registration statement outside of the Philippines if the offer and sale of rights to purchase securities or the underlying securities are exempted from the applicable registration requirements. Accordingly, shareholders who are subject to similar restrictions may be unable to participate in rights offerings and may experience a dilution in their holdings.

**Overseas shareholders may be subject to restrictions on repatriation of Philippine Pesos received with respect to the Common Shares.**

Under BSP regulations, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange within the Philippine banking system. In particular, a foreign investment must be registered with the BSP if foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon is sourced from the Philippine banking system. See the Regulatory and Environmental Matters – Other Laws – Registration of Foreign Investment and Exchange Controls section of this Prospectus.

**Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Common Shares.**

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines.
Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Common Shares. There is no assurance that the Company will be able to manage such risk.

**The Company's shares are subject to Philippine foreign ownership limitations.**

The Philippine Constitution and related statutes restrict land ownership to Philippine Nationals. The term "Philippine National" as defined under Republic Act No. 7042 or the Foreign Investments Act, as amended, means a citizen of the Philippines, a domestic partnership or association wholly owned by citizens of the Philippines or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

On May 20, 2013, the Philippine SEC issued Memorandum Circular No. 8, Series of 2013 which provided guidelines (the "**Guidelines**") on compliance with the Filipino-Foreign ownership requirements under the Philippine Constitution and other existing laws by corporations engaged in nationalized or partly nationalized activities (the "**Nationalized Corporations**"). The Guidelines provide that for purposes of determining compliance with the foreign equity restrictions in Nationalized Corporations, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. The validity of this Memorandum Circular and its interpretation of the rules on corporate nationality have been affirmed by the Supreme Court.

As of the date of this Prospectus, the STN Subsidiaries own private lands in the Philippines. In order that said STN Subsidiaries will remain compliant with the foreign ownership limitations, the aggregate foreign ownership in the Company is limited to a maximum of 40% of its issued and outstanding capital stock, the Company cannot allow the issuance or the transfer of its common shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Company ceasing to be a Philippine National. This restriction may adversely affect the liquidity and market price of the common shares to the extent international investors are not permitted to purchase common shares in normal secondary transactions.

**The intended use of the proceeds of the Offer may be delayed or may not materialize.**

The net proceeds from the sale of the Offer Shares are intended to be used for the purposes and in the manner set out in the Use of Proceeds section of this prospectus. In particular, the net proceeds from the sale of the Offer Shares shall be used by STN to fund the Company's capital expenditures and pipeline project development. The Company may encounter certain unforeseen events that may delay the commencement of construction or operation. Moreover, the Company's management will have discretion over the detailed use and investment of the net proceeds of the Offer and the Company may not use the proceeds from the sale of the Offer Shares in the exact manner set in the Use of Proceeds.

## RISKS RELATING TO CERTAIN INFORMATION IN THE PROSPECTUS

**Certain information contained herein is derived from unofficial publications.**

Certain information in this Prospectus relating to the Philippines, the industry and market, generally, including statistics relating to market size, is derived from various Government and private publications. This Prospectus also contains industry information which was prepared from available public sources and independent market research conducted by Euromonitor. The information contained in that section may not be consistent with other information regarding Steniel's industry. Similarly, industry forecasts and other market research data, including those contained or extracted herein, have not been independently verified by the Company, the Issue Manager and Sole Underwriter nor any of their respective affiliates or advisors, and may not be accurate, complete, up to date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

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# USE OF PROCEEDS

At an Offer Price from Php1.80 to Php2.00 per Offer Share, the Company expects to raise up to Php315.3 million of gross proceeds from the Offer Shares. The Company estimates that net proceeds from the Offer Shares will be approximately up to Php297.8 million after deducting the fees, commissions, taxes and other expenses in relation to the Firm Offer payable by the Company amounting to approximately Php17.5 million.

The following table shows the breakdown of the Estimated Net Proceeds:

| Estimated Net Proceeds[13] | |
|---|---|
| Primary Offer Shares (in Php) | |
| Gross Proceeds | 315,295,838.00 |
| Estimated expenses: | |
| Underwriting fees for the Firm Offer[14] | 6,300,000.00 |
| Fees to be paid to the PSE Trading Participants | 553,500.00 |
| Documentary stamp taxes | 1,811,879.19 |
| SEC registration, research and listing fees | 320,973.80 |
| PSE listing fee | 346,825.42 |
| Estimated professional fees: | |
| Legal Fees | 2,000,000.00 |
| Audit Fees | 200,000.00 |
| Stock and Transfer and Receiving Agency Fees | 750,000.00 |
| Share Lock Up Escrow Agency Fees | 80,000.00 |
| Estimated other expenses | 5,275,000.00 |
| Total Estimated Offer Expenses from the Offer | 17,638,178.41 |
| **Estimated Net Proceeds from the Offer** | 297,685,833.71 |

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts. The estimated expenses set forth in the table above reflect the estimated expenses relating to the sale of the Offer Shares and are presented in this Prospectus for convenience only. Selling fees, taxes and certain other fees and expenses specifically pertaining to the sale of the Option Shares will be paid by the Selling Shareholder.

**Use of proceeds from the sale of Offer Shares**

The use of proceeds for this Offer will be based on the following order of priority of activities and subject to the succeeding paragraph:

| Use of Proceeds | Estimated Amounts (Php millions) | % | Disbursement Schedule |
|---|---|---|---|
| Development of expansion of the facility in Panabo, Davao del Norte | 250,000,000.00 | 84.0% | 1Q25 – 4Q25 |
| General working capital | 47,685,833.71 | 16.0% | 1Q25 |

STN intends to infuse the proceeds of the Offer into SMPC through equity subscriptions to be conducted after the Offer.

**Development of expansion of the facility in Panabo, Davao del Norte**

Company intends to expand its existing warehouse in Panabo, Davao del Norte into a new logistics and production facility. To this end, the Company is currently in the process of applying for and securing the necessary permits to undertake the expansion. This facility is intended to help STN adapt to changing customer preferences and remain the corrugated box provider of choice.

13 Sum of the individual estimated expenses may not necessarily tally with the total due to rounding adjustments.
14 The estimated fees of the Issue Manager, Sole Underwriter excludes the fees payable to the PSE Trading Participants

The expansion of the Panabo Facility will be conducted in several phases to manage capital requirements and maximize available capacity. This stage will be comprised of an expanded warehouse spanning 1.9 hectares, with a total projected cost of Php250.0 million. This will allow STN to cater to a broader range of customers that require just-in-time inventory management. This may also translate to further cost savings, as it allows STN to reduce its leased warehouse space while increasing its overall storage capacity. As of the date of this Prospectus, the Company's warehouse capacity is 38,000 metric tons across its warehouses throughout Davao City. Meanwhile, the planned Panabo Expansion will have an aggregate capacity of over 58,000 tons. Subsequent expansion plans intended to increase its production capacity will be implemented once the Company sees adequate market demand.

The indicative timeline for the Panabo Facility is as follows:

| | Details |
|---|---|
| Completion of permits | 1Q25 |
| Start of construction | 2Q25 |
| Completion of construction | 4Q25 |

**Working capital**

STN intends to allocate the remaining proceeds of the Offer amounting to [Php47,685,833.71] to fund the working capital requirements of the Company and the STN Subsidiaries. Note that the Company's operations are working capital intensive, as STN must maintain sufficient buffer stock of raw materials to ensure continuous production. Moreover, STN expects its working capital requirements to increase as operations continue to scale and revenues grow.

As of December 31, 2023, STN's total working capital requirements have amounted to Php440.6 million.[15]

**Undertaking on the Use of Proceeds**

The proposed use of proceeds described above represents the Company's best estimate of the use of the net Offer proceeds. The actual amount and timing of disbursement of the net proceeds from the Offer based on the uses stated above will depend on factors such as changing market conditions or new information regarding the cost or feasibility of the Company's plans. Cost estimates may change as the Company develops its plans, and actual costs may be different from the budgeted costs. For these reasons, the Company may find it necessary or advisable to reallocate the net Offer proceeds within the categories described above, or to alter plans.

Other than as described above, no part of the net proceeds from the Offer Shares shall be used to acquire assets outside of the ordinary course of business or finance the acquisition of other businesses, or to reimburse any officer, director, employee or shareholder of the Company for services rendered, assets previously transferred, money loaned or advanced, or otherwise. No amount of the net proceeds of the Offer will be lent to any of the Company's Affiliates.

The actual amount and timing of disbursement of the net proceeds from the Offer Shares for the uses stated above will depend on various factors which include, among others, changing market conditions or new information regarding the cost or feasibility of STN's expansion projects. STN's cost estimates may change as the Company develops STN's plans, and actual costs may be different from STN's budgeted costs.

To the extent that the net proceeds from the Offer Shares are not immediately applied to the above purposes, the Company will invest the net proceeds in interest-bearing short term demand deposits and/or money market instruments and other short term liquid instruments.

The Company undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed in this Prospectus. The Company's cost estimates may also change as these plans

[15] Calculated as the total increase in accounts receivable and decrease in accounts payable as of December 31, 2023 as compared to December 31, 2022.

are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans.

In the event of any deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC and the PSE in writing at least thirty (30) days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by STN's board of directors and disclosed to the PSE. In addition, the Company shall submit via the PSE EDGE the following disclosures to ensure transparency in the use of proceeds:

a. any material disbursements made in connection with the planned use of proceeds from the Offer Shares;
a. quarterly progress report on the application of the proceeds from the Offer Shares on or before the first fifteen (15) days of the following quarter; the quarterly progress reports should be certified by the Company's Chief Financial Officer or Treasurer and external auditor;
b. annual summary of the application of the proceeds on or before January 31 of the following year, which will be certified by STN's Chief Financial Officer or Treasurer and external auditor; and
c. approval by the Company's board of directors of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least thirty (30) days prior to the said actual disbursement or implementation.

The quarterly and annual reports required in items (b) and (c) above must include a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any. The detailed explanation must state the approval of STN's Board as required in item (d) above. The Company will submit an external auditor's certification of the accuracy of the information reported by STN to the PSE in the Company's quarterly and annual reports.

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts indicated above. The estimated amounts used to determine the estimated net proceeds are presented in this Prospectus for convenience only.

Other Expenses refer to commissions, SCCP fees, Securities Investors Protection Fund, and block sale fees in relation to the Option Shares subject of the Overallotment Option.

None of the proceeds from the Offer will be used to reimburse any officer, director, employer or shareholder of the Company for services, assets or money previously rendered, transferred, advanced or otherwise. None of the proceeds will be used by the Company to prepay or repay any existing debt or liabilities of the Company to the Issue Manager and Sole Underwriter, save for fees and reimbursement of expenses relating to the Offer.

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# DIVIDENDS AND DIVIDEND POLICY

**Limitations and Requirements**

Under Philippine law, dividends may be declared out of a corporation's Unrestricted Retained Earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the SEC. The approval of the Board of Directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing not less than two-thirds of the outstanding capital stock at a regular or special meeting duly called for the purpose. From time to time, the Company may reallocate capital among the STN Subsidiaries, if any, depending on its business requirements.

The Philippine Revised Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividend without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation.

The Philippine Revised Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation, (ii) when distribution is prohibited under any loan agreement with any financial institution or creditor without its consent, and such consent has not been secured, (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies, or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

**Record Date**

Pursuant to existing SEC rules, cash dividends declared by the Company must have a record date not less than 10 nor more than 30 days from the date of declaration. In case no record date is specified, it is deemed to be fixed at 15 days after the company's declaration. For stock dividends, the record date should not be less than 10 nor more than 30 days from the date of the shareholders' approval, provided however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

**Dividend History**

The Company did not declare any dividends for the years ended December 31, 2021, 2022, and 2023.

**Dividend Policy**

Currently, the Company is focused on increasing the shareholder value by prioritizing and taking advantage of potential expansion opportunities. As of the date of this prospectus, the Company has yet to adopt a dividend policy. However, the Company's Board may, at any time, declare dividends and/or formally adopt a dividend policy depending upon the Company's capital expenditure plans and/or any terms of financing facilities entered into to fund its current and future operations and projects.

Apart from compliance with legal requirements, there are no specific requirements relating to the Company's dividend policy that limits or would likely limit the Company's ability to pay dividends. Currently, it does not have any outstanding contractual obligation that preclude it from declaring dividends.

The Board is authorized to declare dividends only from the Company's unrestricted retained earnings, and the Board may not declare dividends which will impair the Company's capital. Dividends may be payable in cash, shares or property of the Company, or a combination thereof, as the Board determines.

Dividends to be paid in cash by the Company are subject to approval by a majority of the Board and no further approval from the Company's stockholders is required. Furthermore, declaration and payment of dividends shall follow the rules and guidelines set by the SEC, the PSE and the Revised Corporation Code.

The declaration of stock dividends is subject to the approval of stockholders representing at least two-thirds of the outstanding capital stock. In cases where the stock dividends shall be sourced from an increase in the authorized capital stock of the Company, such increase shall be subject to the required approvals of the SEC for the same. The record date with respect to stock dividends is to be neither less than 10 days nor more than 30 days from the date of stockholders' approval, provided, however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In relation to foreign stockholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP

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# DETERMINATION OF THE OFFER PRICE

The Offer Price is from Php1.80 to Php2.00 per Offer Share. The final Offer Price will be determined through a book-building process and discussions between the Company and the Issue Manager and Sole Underwriter . Since the Offer Shares have not been listed on any stock exchange prior to the Offer, there has been no market price for the Shares derived from day-to-day trading.

The factors that will be considered in determining the Offer Price are, among others, include the Company's ability to generate earnings, cash flow, and dividends, the Company's short- and long-term prospects, the level of demand from institutional investors, overall market conditions at the time of launch of the Offer and the market prices and earnings multiples of listed comparable companies, with reference to the relevant country's stock market index. The Offer Price does not have any correlation to the book value of the Offer Shares.

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# CAPITALIZATION

The following table sets out the Company's consolidated debt, shareholders' equity, and capitalization as of September 30, 2024, and as adjusted to reflect the issuance and sale of a total of 157,647,919 Offer Shares at the Offer Price from Php1.80 to Php2.00 per Offer Share. The table should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto, included in this Prospectus.

Provided below is the Company's Consolidated Debt, Shareholders' Equity, and Capitalization as of September 30, 2024:

| in Php thousands | Actual as of September 30, 2024 Php (Unaudited) | As Adjusted for the Offer Php (Unaudited) |
|---|---|---|
| **TOTAL DEBT** | **1,458,293** | **1,458,293** |
| | | |
| Equity: | | |
| Capital stock | 1,418,812 | 1,576,460 |
| Additional paid in capital | 408,423 | 566,071 |
| Retained earnings | -883,601 | -883,601 |
| Reserve for retirement benefits liabilities | 204 | 204 |
| Net unrealized loss on investments in equity instruments | 26,398 | 26,398 |
| **TOTAL EQUITY** | **970,236** | **1,285,532** |
| **TOTAL CAPITALIZATION** | **2,428,529** | **2,743,825** |

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# DILUTION

The Company will offer up to 157,647,919 Offer Shares to the public at the Offer Price, which will be higher than the adjusted book value per share of the outstanding Common Shares and which will result in an immediate material dilution of new investors' equity interest in the Company. The tangible book value of the Company, based on its reviewed financial statements as of September 30, 2024 was Php970.2 million or Php0.68 per share. The book value represents the amount of the Company's total assets less the sum of its liabilities. The Company's net tangible book value per share is computed by dividing the tangible book value by 1.42 billion issued and outstanding Common Shares.

Dilution in pro-forma book value per share to investors of the Offer Shares represents the difference between the Offer Price and the pro-forma book value per Share immediately following the completion of the Offer.

After giving effect to an increase in the Company's total assets to reflect the receipt of the net Offer proceeds of approximately Php315.3 million from the sale of 157,647,919 Primary Offer Shares at an Offer Price at the maximum of Php2.00 per Offer Share, STN's net tangible book value will be approximately Php1,285.5 million or Php0.82 per Common Share. This represents an immediate increase in the net tangible book value of Php0.13 to existing shareholders and an immediate decrease of Php1.20 per share to investors of the Offer Shares.

The following table illustrates dilution on a per Common Share basis, at the Offer Price of ₱2.00 per Offer Share:

| **Basis of Dilution of Common Shares** | |
|---|---|
| Offer Price per Offer Share | Php2.00 |
| Net book value per Common Share as of September 30, 2024 | Php0.68 |
| Difference in Offer Price per Offer Share and book value per Offer Share as of September 30, 2024 | Php1.32 |
| Pro forma net book value per Common Share immediately following the completion of the Offer | Php0.82 |
| Dilution in Pro forma net book value per Common Share to investors of the Shares | Php1.18 |

The following table sets forth the shareholdings of existing and new shareholders of the Company immediately after completion of the Offer:

| **Resulting Outstanding Capital Stock After the Offer** | **Shares** | **%** |
|---|---|---|
| Existing shareholders | 1,103,780,605 | 70.0% |
| Public | 472,679,395 | 30.0% |
| **TOTAL** | **1,576,460,000** | **100.0%** |

The following table sets forth the shareholdings, and percentage of Shares outstanding of the existing and new shareholders of the Company before and after the Offer:

| **Shareholder** | **Pre-FOO No. of Shares Held** | **%** | **Post-FOO No. of Shares Held** | **%** |
|---|---|---|---|---|
| Existing shareholders | 1,418,812,081 | 100.0 | 1,418,812,081 | 90.0 |
| New investors | - | - | 157,647,919 | 10.0 |
| **TOTAL** | **1,418,812,081** | **100.0** | **1,576,460,000** | **100.00** |

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# MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) AND PLAN OF OPERATION

The following is a discussion and analysis of the Company's historical financial condition and results of operations and certain trends, risks and uncertainties that may affect the Company's business and should be read in conjunction with the independent auditor's reports and the Company reviewed and audited consolidated financial statements and notes thereto contained in this Prospectus. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the results of operations and financial condition for the periods presented in this report. The discussion and analysis of the Company's results of operations is presented in three (3) comparative sections: the year ended December 31 2023, 2022, and 2021 compared with the immediately preceding year, and the year ended December 31, 2023 compared with the nine months ended September 30, 2024. Disclosure relating to liquidity and financial condition and the trends, risks and uncertainties that have had or that are expected to affect revenues and income complete the management's discussion and analysis.

The Company's financial statements for the years ended December 31, 2021, and 2022 were audited by KPMG, while the Company's financial statements for the year ended December 31, 2023 were audited and for the period September 30, 2024 were reviewed by VACO, in accordance with the PSA.

Prospective investors should read this discussion and analysis of the Company's financial condition and results of operations in conjunction with the Company's consolidated financial statements and the notes thereto set forth elsewhere in this Prospectus.

This discussion contains forward-looking statements and reflects the Company's current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled Risk Factors and elsewhere in this Prospectus.

## FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS

Prospective investors should read this discussion and analysis of the Company's financial condition and results of operations in conjunction the section entitled Selected Financial and Operating Information and with the financial information as of and for the years ended December 31, 2021, 2022, and 2023 as well as the financial period ending September 30, 2024 (collectively, the "**Financial Statements**"), in each case, including the notes relating thereto, included elsewhere in this Prospectus.

## CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of the Company's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how the Company's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the Company has identified the significant accounting judgments, estimates and assumptions discussed in Note 3 to the Company's audited financial statements included, elsewhere in this Prospectus.

The main items subject to estimates and assumptions by management include, among others, impairment for allowance of expected credit losses ("**ECL**"), impairment losses on receivables, due from related parties and refundable deposits, estimation of useful lives of property and equipment, and realizability of deferred tax assets.

While the Company believes that all aspects of its financial statements, including the accounting policies discussed in Note 2 to its audited financial statements should be studied and understood in assessing the Company's current and expected financial condition and results of operations, the Company believes that the significant accounting judgments, estimates and assumptions discussed in Notes 2 and 3 to the Company's audited financial statements warrant particular attention.

## RESULTS OF OPERATIONS

**Results of Operations as of September 30, 2024 vs September 30, 2023**

Consolidated revenues for the third quarter totaled Php2,391.7 million while revenue recorded for the same period last year amounted to Php2,613.7 million. Revenues on both years mainly consist of the manufacturing and selling of cartons and packaging materials to domestic and international markets.

Cost of sales and expenses applicable to the manufacturing business totaled Php1,931.9 million for the third quarter and Php2,273.3 million for the same period last year. Gross profit margin for the current period posted at 19.22%, compared to 3Q23's margin of 13.02% due to the LTSA and improved operations of STN.

Operating expenses during the third quarter of the year Php261.34 million compared to the opex for same period last year of Php253.21 million due to the reversals of impairment losses of receivables and previously recognized inventory write-down amounting to P19.407 million and P15.409 million, respectively.

Financing charges recognized during the third quarter is mainly related to long term bank borrowings to support the plant's operation amounted to Php66.1 million.

Other income, net for the third quarter amounted to Php30 million compared to the same period last year's other expenses of Php159.53 million due to the dacion en pago transaction last year.

Income tax expense applicable for the third quarter amounted to Php62.96 million.

Overall, STN realized a consolidated net income of Php99.33 million for the third quarter compared to Php205.16 million for the same period last year due to the dacion en pago transaction last year.

**Financial Condition as of September 30, 2024 vs December 31, 2023**

Total current assets as at September 30, 2024, totaled Php3.78 billion as compared to Php3.322.17 billion in FY23 due to the decrease in receivables amounting to Php172.26 million, the increase in the inventories amounting to Php171.33 million mainly caused by greater inventories issued than purchased during the period and the increase in prepaid expenses and other current assets amounting to 519.46 million. Non-current assets increased to Php1.06 billion as at September 30, 2024 against FY23's Php936.24 million.

STN's consolidated current liabilities as at September 30, 2024 totaled Php3.39 billion as compared to December 31, 2023's Php2.87 billion due to the increase in trade payables and other current liabilities and current portion of borrowings by Php414.86 million and Php68.75 million, respectively as a result of the increase in the inventories.

**Results of Operations as of December 31, 2023 vs December 31, 2022**

Consolidated revenues for the current year totaled Php 3,407 million while revenue recorded last year amounting to Php 2,205 million. Revenues on both years mainly consist of the manufacturing and selling of cartons and packaging materials to domestic and international markets.

Cost of sales and expenses applicable to the manufacturing business totaled Php 2,956 million for the current year and Php 1,824 million for the previous year. Gross profit margin for the current period posted at 13.22%, compared to last year's margin of 17.31%. The sharp decrease for the current year was due to the consolidation of the manufacturing business.

Operating expenses during the current year posted Php 369.430 million compared to last year of Php 268.133 million. The increase of Php 101.297 million consist of costs incurred to support the manufacturing activities.

Financing charges recognized during the current year is mainly related to long term bank borrowings to support the plant's operation amounted to Php 77.970 million.

Other income, net for the period ending 2023 amounted to Php 174.743 million compared to last year other income Php 36.722 million. The significant decrease is attributable to gain on disposal of investments related to the completion of dacion en pago recognized during the year amounting to Php 117.295 million.

Income tax expense applicable for the current year amounted to Php 56.424 million compared to Php 2.635 million in 2022.

Overall, STN realized a consolidated net income of Php 117.782 million for the year ended December 31, 2023 compared to Php 28.355 million last year. The significant increase was mainly attributed to the increase in the gross profit resulting from operations this year and the dacion en pago transaction during the year.

**Financial Condition as of December 31, 2023 vs December 31, 2022**

Total current assets as at December 31, 2023, totaled Php 3,322.168 million as compared to Php 3,117.334 million in 2022. The increase was mainly due to the increase in inventories to supply increasing sales of STN. Non-current assets decreased to Php 936.239 million as at current year-end against last year's Php 1,001.895 million.

STN's consolidated current liabilities as at current year-end totaled Php 2,872.441 million as compared in 2022 of Php 2,826.918 million. The significant increase was mainly attributed to the increase in purchases. SMPC, the operating subsidiary's working capital was secured from bank loans to sustain its operation and commitments to clients.

Total assets as at year-end 2023 totaled Php 4,258.407 million compared to Php 4,118.229 million in 2022. In view of the foregoing discussions, the Steniel Group's current ratio during the year recorded at 1.16 and last year at 1.10. Debt-to-equity ratio in 2023 is 3.78 compared last year at 4.46.

**Results of Operations as of December 31, 2022 vs December 31, 2021**

Consolidated revenues for the current year totaled Php 2,205 million while revenue recorded last year amounting to Php 1,276 million. Revenues on both years mainly consist of the manufacturing and selling of cartons and packaging materials to domestic and international markets.

Cost of sales and expenses applicable to the manufacturing business totaled Php 1,824 million for the current year and Php 1,140 million for the previous year. Gross profit margin for the current period posted at 17.31%, compared to last year's margin of 10.71%. The sharp decrease for the current year was due to the consolidation of the manufacturing business.

Operating expenses during the current year posted Php 268.133 million compared to last year of Php 115.079 million. The increase of Php 153.054 million consist of costs incurred to support the manufacturing activities.

Financing charges recognized during the current year is mainly related to long term bank borrowings to support the plant's operation amounted to Php 41.711 million.

Other charges, net for the period ending 2022 amounted to Php 36.722 million compared to last year other income Php 12.183 million. The significant decrease is attributable to foreign exchange loss recognized during the year amounting to Php 51.432 million.

Income tax expense applicable for the current year amounted to Php 2.635 million compared to Php 0.984 million in 2021.

Overall, STN realized a consolidated net income of Php 28.355 million for the year ended December 31, 2022 compared to Php 17.965 million last year. The significant increase was mainly attributed to the increase in the gross profit resulting from operations this year.

**Financial Condition as of December 31, 2022 vs December 31, 2021**

Total current assets as at December 31, 2022, totaled Php 3,117.334 million as compared to Php 1,387.861 million in 2021. The increase was mainly due to the increase in inventories to supply increasing sales of STN. Non-current assets also increased to Php 873.317 million as at current year-end against last year's Php 693.772 million.

STN's consolidated current liabilities as at current year-end totaled Php 2,826.918 million as compared in 2021 of Php 1,167.908 million. The significant increase was mainly attributed to the increase in purchases. SMPC, the operating subsidiary's working capital was secured from bank loans to sustain its operation and commitments to clients.

Total assets as at year-end 2022 totaled Php 4,118.229 million compared to Php 2,080.633 million in 2021. In view of the foregoing discussions, the Steniel Group's current ratio during the year recorded at 1.10 and last year at 1.19. Debt-to-equity ratio in 2021 is 4.46 compared last year at 1.85.

**Results of Operations as of December 31, 2021 vs December 31, 2020**

Consolidated revenues for the current year totaled Php1,277 million mainly consist of the manufacturing and selling of cartons and packaging materials to domestic and international markets while revenue recorded last year amounting to Php 40 million was solely from the leasing of machineries and equipment to a subsidiary in Davao.

Cost of sales and expenses applicable to the manufacturing business totaled Php 1,140 million while last year's direct expenses related to the leasing activity was almost negligible. Gross profit margin for the current period posted at 10.71%, compared to last year's margin of 99.99%. The sharp decrease for the current year was due to the consolidation of the manufacturing business.

Operating expenses during the current year posted Php 115.079 million net of reversal of previously recognized inventory write-down amounting to Php 15.388 million compared to last year of P5.788 million. The increase of Php 109.291 million consist of costs incurred to support the manufacturing activities.

Financing charges recognized during the current year is mainly related to short term bank borrowings to support the plant's operation amounted to Php 14.814 million. No financing charges was recognized attributable to the long term debt since 2018 when the creditors agreed to waive the interest charges maintaining their support up to this reporting period.

Other income for the period ending 2021 amounted to Php 12.183 million consist of dividends income, gain on sale of AFS and Forex gain compared to last year Php 277.254 million. The significant decrease consists of the gain on acquisition of SMPC amounted to Php 267.459 and reversal of allowance for impairment of prepaid taxes in the amount of, Php 7.993 million.

Income tax expense applicable for the current year amounted to P .984 million compared to Php 10.966 million in 2020.

Overall, STN realized a consolidated net income of Php 17.965 million for the year ended December 31, 2021 compared to Php 300.498 million last year. The significant decrease was mainly attributed to the gain on acquisition of a subsidiary arising from the business combination that was implemented on December 29, 2020.

**Financial Condition as of December 31, 2021 vs December 31, 2020**

Total current assets as at December 31, 2021, totaled Php 1,387.861 million as compared to Php 1,286.861 million in 2020. The increase was mainly due to consolidation of assets of SMPC brought by the share swap in December 29, 2020. Non-current assets also increased to Php 693.772 million as at current year-end against last year's Php 589.364 million.

STN's consolidated current liabilities as at current year-end totaled Php 1,167.908 million as compared in 2020 of Php 1,150.043 million with a slight increase. SMPC, the operating subsidiary's working capital was secured from bank loans to sustain its operation and commitments to clients.

Total assets as at year-end 2021 totaled Php 2,080.633 million compared to Php 1,875.674 million in 2020. In view of the foregoing discussions, the Steniel Group's current ratio during the year recorded at 1.19 and last year's at 1.12. Debt-to-equity ratio in 2021 is 1.85 compared last year at 1.73.

**Results of Operations as of December 31, 2020 vs December 31, 2019**

Consolidated revenues for the current year totaled Php40 million mainly generated from the leasing of machineries and equipment in Davao. The gross profit margin for the current period is 99.99%, which is higher than last year's margin of 82.69%.

Operating expenses during the current year posted Php 5.788 million as compared to last year of P5.344 million.

Other income generated amounting to Php 168,059 million including the provisional gain on acquisition of SMPC at Php 158.265 million on account of the business combination, reversal of allowance for impairment of prepaid taxes to Php 7.993 million ,dividends received and the gain on sale of AFS Financial assets posted a revenue of Php 1.801 million as compared to Php 2.373 million total other income in 2019.

Income tax expense applicable to the current year amounting to P10.966 million against Php 14.403 million in 2019.

Overall, the Company ended the year 2020 with a consolidated net income for the current year of Php 201.922 million as compared to consolidated net income of Php 12.129 million last year. The increase in net income was attributable to the provisional other income derived from the business combination which is expected to be final within the year.

There are no financing charges recognized during the current year with the same support extended by the creditors in 2019.

**Financial Condition as of December 31, 2020 vs December 31, 2019**

Total current assets as at December 31, 2020, totaled Php 1,286,310 million as compared with Php 287,841 million in 2019. The increase was mainly due to consolidation of assets of SMPC. While the same applies to increase in total non-current assets totaled Php 453,133 million as at current year-end against last year's Php 52,415 million.

The Steniel Group's consolidated current liabilities as at current year-end totaled Php 1,150,373 million as compared with those in 2019 of Php 226,859 million. The increase was contributed by the loans carried by SMPC for its working capital.

Total assets as at year-end 2020 totaled Php 1,739,443 million compared to Php 340,256 million in 2019. In view of the foregoing discussions, the Steniel Group's current ratio during the year recorded at 1.12 and last year's at 1.27. Debt-to-equity ratio in 2020 is 2.01.

## KEY PERFORMANCE INDICATORS

The Company's KPI as of the year ended December 31, 2021, 2022, and 2023 and for the period ending September 30, 2024 are listed below:

| Key Financial And Operating Ratios | For the years ended December 31, | | | For the financial period ending September 30, |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| Current Ratio [16] | 1.2x | 1.1x | 1.2x | 1.1x |

16 Current Assets / Current Liabilities

| Key Financial And Operating Ratios | | | | |
|---|---|---|---|---|
| | For the years ended December 31, | | | For the financial period ending September 30, |
| | 2021 | 2022 | 2023 | 2024 |
| Liabilities to Equity Ratio[17] | 1.9x | 4.5x | 3.9x | 4.0x |
| Gross Profit Margin (%)[18] | 10.70% | 17.30% | 13.20% | 19% |
| Before Tax Return on Sales (%)[19] | 1.50% | 1.40% | 5.10% | 6.8% |
| Earnings per Share[20] | 0.01 | 0.02 | 0.08 | 0.07 |
| Earnings before Interest, Taxes, Depreciation & Amortization[21] | 146,137 | 238,259 | 434,142 | 351,778 |
| Return on Equity[22] | 2.50% | 3.80% | 14.30% | 9.3% |

## FINANCIAL RISK DISCLOSURE

As of date of this Prospectus, the Issuer has not spent on any research/development activities. The Company –

- is not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period;
- is not aware of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations; and
- does not have any significant elements of income or loss that did not arise from its continuing operations.

In 2021, the STN Subsidiaries, together with an affiliate, secured a P2 billion 7-year loan for the acquisition of the box and printing plants of Dole Philippines Inc. (Dole), the parcels of land where the plants are situated, and all machineries and equipment used in the plant operations. The loan was fully drawn by SCPC and the affiliate. SMPC did not draw on the loan.

The borrowers are required to maintain the following until full payment of the loan: debt to service coverage ratio of at least 1.25x, a total debt-to-equity ratio of 1.5 to 1, and a debt to EBITDA of no more than three (3) times. The STN Subsidiaries failed to comply with the financial ratios as at December 31, 2021, 2022 and 2023, and are exposed to the risk of being declared in default by the lender.

As of the date of this Prospectus, the borrowers are up to date in the payment of its amortizations and have not received any notice of default from the lender.

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17 Total Liabilities/Stockholders' Equity
18 Gross Profit/Revenues
19 Profit Before Tax/Revenues
20 Net Income/Outstanding Shares
21 Net Income plus Interest Expenses, Provision for Income Tax, Depreciation and Amortization
22 Net Income / Average Stockholders' Equity; ROE for the financial period ending September 30, 2024 was calculated using the trailing 12 months' net income.

# INDUSTRY OVERVIEW

This section contains information concerning the corrugated box industry in the Philippines, which is sourced from their respective public filings and which includes certain and unreviewed financials. None of the Company nor the Issue Manager makes any representation as to the accuracy or completeness of this information. This information has not been independently verified by the Company nor the Issue Manager and should not be unduly relied on.

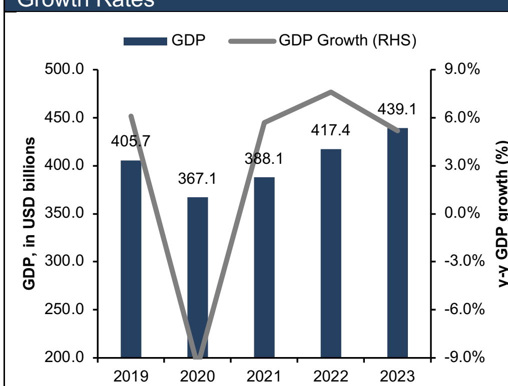
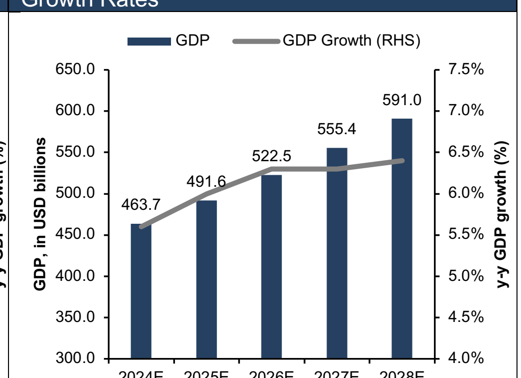
The information should not be relied upon in making, or refraining from making, any investment decision. The Industry Overview includes forecasts and other forward-looking estimates. These forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to various risks and uncertainties relating to possible invalidity of the underlying assumptions and estimates and possible changes or development of social, economic, business, industry, market, legal, government, and regulatory circumstances and conditions and actions taken or omitted to be taken by others. Actual results and future events could differ materially from such forecasts. Investors should not place undue reliance on such statements, or on the ability of any party to predict future industry trends or performance.

**Philippine Economy**[23]

According to Euromonitor, the Philippines experienced a real GDP growth of 5.2% in 2023, reaching a high of USD439.1 billion. This marks the third consecutive year of growth following the COVID-19 pandemic. The growth was driven by increases in consumer and capital expenditure, as well as remittance inflows. As a result, GDP per capita also grew by 3.6% annually, reaching USD3,742.5 in 2023, the highest recorded value in the past five years.

Euromonitor predicts that the Philippine government's initiatives, such as the "Build Better More" program, which aims to improve connectivity and streamline the movement of goods and services within the country, will help boost economic growth. Trade agreements like the Regional Comprehensive Economic Partnership (RCEP) aim to lower trade barriers and attract foreign investments, while domestic regulatory changes create a conducive environment for foreign businesses.

As the economy continues to grow and infrastructure improves, income levels of locals are expected to rise, fostering further economic development in the Philippines. In the forecast period of 2024-2028, Euromonitor predicts real GDP will grow at a CAGR of 6.2% to reach USD591.0 billion in 2028, while GDP per capita is expected to grow at a CAGR of 4.8% to reach USD4,688.1 by 2028. This growth is expected to support downstream industries.

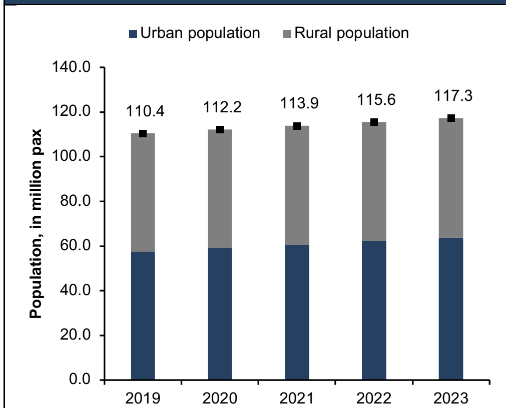
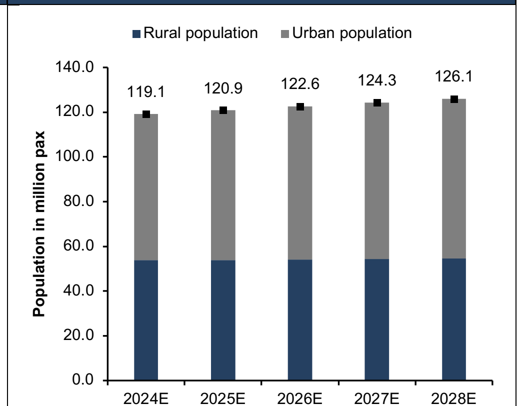
| 2019 – 2023 Historical Philippine GDP and GDP Growth Rates | 2024 – 2028 Projected Philippine GDP and GDP Growth Rates |
|---|---|
|   |   |
| Source: Euromonitor International | Source: Euromonitor International |

[23] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines.

Euromonitor also believes that the growing population makes the Philippines attractive to consumer businesses. The Philippines population is currently at 117.3 million in 2023, constituting a moderate 1.5% growth from 2022. Of which, population growth in the Philippines has maintained the approximate 1.5% growth on an annual basis since 2019, indicating healthy growth momentum.

Over the last five years, the urban population held a majority in the Philippines, contributing to more than 50% of the total population. Presently, the urban population stands at 54.4% of the total population in 2023. Urbanization is expected to continue underpinned by migration within and outside of the Philippines driven mainly by employment opportunities. This is likely to drive rising income levels within the Philippines and contribute to growth in consumer expenditure.

On top of this, the Philippines' young and growing population makes it an increasingly attractive market for consumer businesses, particularly those catering to the rising trend of online retail driven by the digitally savvy population. While retail e-commerce only makes up 9.7% of total retail sales value in the Philippines, it grew at a remarkable CAGR of 37.7% over the historic period, with Filipino internet users surging from 43.0% of the total population in 2019 to 61.0% in 2023. This surge in e-commerce is anticipated to boost the demand for corrugated paper packaging, essential for delivery of goods.

| 2019 – 2023 Historical Philippine Population – Urban vs. Rural | 2024 – 2028 Historical Philippine Population – Urban vs. Rural |
|---|---|
|  |  |
| Source: Euromonitor International | Source: Euromonitor International |

**Philippine Corrugated Box Industry [24]**

**Historical growth and outlook**

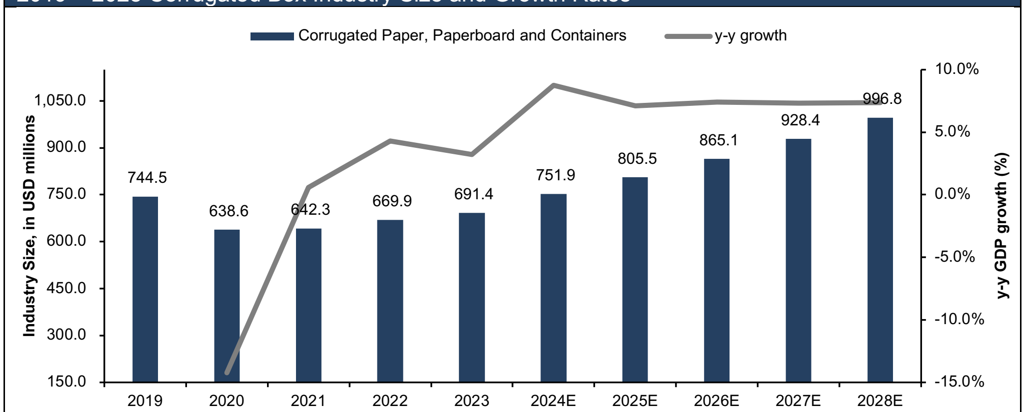
Euromonitor reported that between 2019 to 2023, the total market size for corrugated paper, paperboard, and containers declined at a CAGR of 1.8%, reaching a value of USD691.4 million in 2023. The COVID-19 pandemic caused a sharp decline of 14.2% in 2020 due to supply chain disruptions and labor issues. However, the industry experienced growth due to increased demand for corrugated paper packaging for last-mile deliveries as more people shopped online during the pandemic. As quarantine measures eased, the market saw a growth of 0.1% in 2021 and a more significant recovery of 4.3% in 2022, driven by stabilized supply chains with an increase in exports and domestic movement of goods. In 2023, growth slowed down to 3.2% due to reduced local production and export slowdown, possibly influenced by decreased forestry and pulp, paper, and paperboard output. However, the decline in the overall market size was offset by increased imports during the same period.

Euromonitor believes that the corrugated paper packaging industry is set to achieve a CAGR of 7.3% over the forecast period of 2024-2028, reaching a value of USD996.8 million by 2028. This growth will be driven by expanding trading relations in Asia Pacific and globally, along with improved port infrastructure, which will contribute to the increasing demand for corrugated paper packaging for exports.

[24] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines.

Domestically, government infrastructure programs like "Build Better More" will enhance intermodal connectivity, facilitating efficient movement of goods. Advancements in digital infrastructure, including internet connectivity and e-commerce platforms, alongside urbanization trends, will boost consumer accessibility and drive demand for last-mile delivery packaging. However, there may be challenges such as rising production costs due to global supply chain disruptions and competition from alternative packaging types that could hinder further growth for the industry.

2019 – 2028 Corrugated Box Industry Size and Growth Rates




Source: Euromonitor International

**Key trends**

***Fragmented Paper Packaging Industry Favors Buyers, As Manufacturers Find Ways To Differentiate***

The corrugated paper packaging industry in the Philippines is characterized by a fragmented landscape, with a few major players and numerous smaller manufacturers spread across regions. It is common for the larger players to own facilities such as paper mills and corrugated packaging manufacturing facilities, thereby enabling significant localization of their production and efficient supply chain management. Such players benefit from extensive distribution networks within their region of operation.

Due to the abundance of corrugated packaging players in the Philippines, the current dynamics of the industry favor buyers, providing them with significant bargaining power. Two main categories of buyers can be identified within this landscape: "discerning buyers" who seek packaging stability and strict adherence to specifications, and "value buyers" who seek cost-effectiveness over product quality. Recent trends show a growing emphasis on quality, particularly for export-bound products requiring durable packaging. Conversely, there are also buyers who exhibit less stringent requirements, either due to the less fragile nature of their products or the relatively short distance of transport involved. With that, the corrugated paper packaging landscape is primarily driven by the different needs of the buyers, which can vary due to factors including type of finished goods stored in the packaging, type of transport, and duration of journey. This nuanced scenario indicates buyers' evolving focus from solely cost to seeking enhanced value and quality. While cost remains a key consideration in purchase of corrugated paper packaging, buyers increasingly prioritize quality, challenging manufacturers to align offerings with dual expectations of cost-effectiveness and quality.

Manufacturers in the corrugated packaging industry can differentiate themselves strategically by addressing diverse buyer needs, particularly focusing on the price-to-quality ratio of their products. Offering competitive pricing without compromising quality allows them to meet clients' demands for strong value propositions. Timely delivery is also crucial for maintaining client trust, with vertically integrated players benefiting from greater control over production timelines. Beyond these factors, other value-added differentiators would include obtaining certifications, such as the International Organization for Standardization (ISO) certifications as an indication of quality process and control measures.

***Rising Environmental, Social And Governance ("ESG") Awareness Shifts Preferences Towards Sustainable Packaging***

Corrugated paper packaging industry is shaped significantly by key ESG trends in the Philippines, largely driven by government initiatives and regulations. Environmental sustainability is a key focus, evidenced by local standards for recovered paper established by the Department of Trade and Industry's Bureau of Philippines Standards (DTI-BPS). While up to 90% of fiber raw materials are sourced from recovered paper locally, disruptions in the supply chain due to the pandemic and weather events have led to reliance on imported materials.

Minimal standards and regulations govern the quality and identity of recovered paper, resulting in the misclassification of recovered paper as municipal waste, which in turn led to shipment seizures of this imported material and manufacturing delays for the papermaking industry. The introduction of Philippine National Standards (PNS) 2162:2021 and 2163:2021 by DTI-BPS in 2022 aim to address these challenges by improving raw material identification and stabilization of the supply chain, potentially enhancing corrugated paper packaging quality. Embracing sustainable practices aligns with broader social and governance goals, promoting responsible sourcing and waste reduction. Regulatory frameworks supporting ESG principles also ensure the long-term viability of the papermaking industry and instill consumer confidence in sustainable packaging products.

Corrugated paper packaging landscape is also influenced by the implementation of the Extended Producer Responsibility (EPR) Law in 2022, on top of the supply-side regulations. This regulation addresses demand-side concerns by holding companies accountable for managing their plastic packaging throughout its life cycle to combat plastic pollution. Companies must establish EPR programs and meet recovery and diversion targets, incentivizing them to explore alternative eco-friendly packaging like corrugated paper. As companies seek to meet the stringent requirements of the EPR Law, the demand for corrugated paper packaging is projected to grow, presenting opportunities for growth and innovation in the industry.

***Rising Demand For Customizable Solutions, And Use Of Technology In Paper Packaging Industry***

The corrugated paper packaging industry in the Philippines is witnessing significant shifts driven by evolving market demands and technological advancements. Of which, customizable packaging solutions are gaining popularity in the Philippines, driven by the needs of e-commerce and specialized manufacturing industries. Fit-to-Product packaging allows businesses to create custom-sized boxes, reducing waste and shipping costs, especially with the adoption of dimensional weight pricing by logistics companies. Manufacturing sectors like electronics demand specialized boxes such as die-cut boxes with carbon coating for protection against electrostatic shocks. Additionally, digital printing technology is being embraced to customize packaging designs, catering to consumer sectors where branding is important.

Technological advancements in corrugated packaging are also expected to drive future industry growth. While still in the early stages, government-funded research on innovations like Modified Atmospheric Packaging technology and inner coatings aim to enhance functionality of corrugated packaging. Nanotechnology is also emerging as a promising solution for addressing challenges like odor control in fruits, with potential applications in corrugated packaging. These advancements suggest the evolution of packaging functionalities beyond storage, offering advanced solutions for diverse product needs.

**Key drivers and outlook**

***Strong Export Demand Facilitated By Trade Pacts And Port Upgrades Boost Corrugated Packaging Demand***

Demand for corrugated paper packaging in the Philippines is supported by strong trade relations with neighboring countries in the Asia-Pacific region. Notably, Malaysia stands out as a top importer of Filipino agricultural products, importing USD52.0 million of Filipino agricultural products in the fourth quarter of 2023 alone, constituting 25.5% of total agricultural export value to all ASEAN member countries. Strong trade ties are further bolstered by Free Trade Agreements (FTAs), such as the Philippines-South Korea FTA which eliminates tariffs on various products, enhancing market access for agricultural and industrial goods. Additionally, the Regional Comprehensive Economic Partnership (RCEP) strengthens trade ties within ASEAN and beyond, boosting demand for Philippine food exports.

This surge in demand is evident in the recent resurgence of banana and pineapple exports in 2023, further supported by the Philippine government's commitment to upgrade port infrastructure to allow for a more streamlined supply chain between countries, with 19 seaport projects due for completion by the end of 2023. Enhanced ports and trade relations minimize barriers and facilitate the flow of goods, driving demand for corrugated paper packaging, essential for export transportation. Corrugated packaging's durability and reliability make it the preferred medium for exports, emphasizing its role in facilitating trade activities. Overall, strong trade relations stimulate demand for corrugated packaging in the Philippines, illustrating the interconnectedness between trade dynamics and packaging demand.

***Increasing Urbanization And Improved Infrastructure Boosts Commerce And Demand For Corrugated Paper Packaging***

The demand for corrugated paper packaging in the Philippines is driven by urbanization and significant infrastructure improvements aimed at facilitating domestic retail trade and inter-island goods movement. The government's "Build Better More" program enhances connectivity across the nation, significantly enhancing the distribution of finished goods, benefiting producers and consumers alike, consequently driving demand for corrugated paper packaging essential for product packaging. Urbanization, with 54.4% of the Filipino population residing in urban areas, continues to rise due to rural-urban migration for employment opportunities. Increased internet penetration, having grown a notable CAGR of 10.9% over the historic period, fuels growth in retail e-commerce, driven by urban residents seeking convenience. As e-commerce expands, so does the use of corrugated paper packaging for last-mile deliveries. Rural-urban migration driven by employment opportunities will contribute to rising income levels and allows consumers to have greater capacity to consider environmental issues, fostering heightened consumer awareness of sustainability. This will drive demand for eco-friendly packaging solutions like corrugated paper packaging. Overall, urbanization and infrastructure improvements catalyze the rise of retail digital commerce and consumer sustainability awareness, fueling increased demand for corrugated paper packaging in the Philippines.

***Enhanced Trade Access And Infrastructure Development Drive Demand For Corrugated Paper Packaging***

Corrugated paper packaging demand in the Philippines is poised to benefit significantly from the growing landscape of foreign trade. The Philippines, as a maritime nation, is actively pursuing Free Trade Agreements (FTA) with multiple external economies to reduce tariffs and trade barriers. The recent bilateral FTA with South Korea and ongoing negotiations for an FTA with the European Union (EU) exemplify this commitment to fostering strong trade relations. These agreements aim to expand market access for Philippine exports, leading to growing exports and a greater need for high-quality packaging, with corrugated paper packaging at the forefront due to its secure, durable, and eco-friendly characteristics. Moreover, investments in port infrastructure by the Philippine Port Authority (PPA) will further bolster the movement of goods, with substantial funds allocated for enhancements in 2024 to accommodate the expected surge in trade activities. These investments are aimed at accommodating the expected surge in trade and travel activities, with cargo traffic anticipated to increase by as much as 7.5%, and cargo volume potentially reaching an all-time high of 291 million metric tons. As the global trade landscape continues to improve for the Philippines, the demand for reliable and sustainable packaging solutions is set to soar, with corrugated paper packaging positioned as a viable solution to meet the growing needs of Philippine exports.

***Urbanization, Coupled With Physical And Digital Infrastructure Development To Drive Corrugated Paper Packaging Demand***

The future demand for corrugated paper packaging in the Philippines is expected to be driven by ongoing urbanization and the concurrent enhancement of physical and digital infrastructure throughout the forecast period of 2024-2028. Urbanization is projected to continue, with the urban population potentially constituting 56.6% of the total population in 2028, driven by rural-urban migration and increasing income levels. This will consequently lead to a growth in consumer expenditure at a CAGR of 5.7% in the forecast period. Government infrastructure projects like the "Build Better More" program, slated for completion by 2028, aim to bolster physical infrastructure nationwide, enhancing connectivity and accessibility. Future investments in port infrastructure will also facilitate smoother transportation of goods across the border. Additionally, improvements in digital infrastructure, including initiatives to enhance internet connectivity and cybersecurity, will fuel the expansion of digital commerce, driving e-commerce growth.

The synergy between advancements in physical and digital infrastructure is expected to drive the demand for corrugated paper packaging correspondingly, given its pivotal role in ensuring the safe and secure delivery of goods to end consumers.

## Downstream industries[25]

### Gradual Recovery In Manufacturing Production And Prices Post-Pandemic

Manufacturing output in the Philippines has shown a recovery to near pre-pandemic levels in 2023, with the Manufacturing Production Index climbing to 144.1 from a low of 88.0 in 2020, during which it was impacted by COVID-19 lockdowns and mobility restrictions.

Concurrently, the Producer Price Index (PPI) has been on the rise since the peak of the COVID-19 pandemic in 2021, reaching 82.7 in 2023. Rising PPI can be attributed to increased input costs and heightened consumer demand, despite initial disruptions to global supply chains.

| Production Metrices in the Philippines, 2019 -2023 | | | | | | |
|---|---|---|---|---|---|---|
| **Category** | **Unit** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Manufacturing Production Index | 2010 = 100 | 147.9 | 88.0 | 134.3 | 154.8 | 144.1 |
| | | 2019-2023 CAGR: **-0.6%** | | | | |
| Producer Price Index | 2010 = 100 | 81.5 | 77.8 | 76.4 | 81.3 | 82.7 |
| | | 2019-2023 CAGR: **0.4%** | | | | |

### Technology Adoption To Bolster Growth

The supply of corrugated paper packaging is subjected to influence by the market performance of upstream industries, such as agriculture, forestry, and pulp, paper, and paperboard. The conditions and output of these upstream industries significantly impact the availability and quality of these raw materials, underscoring the connectedness of the value chain in the corrugated paper packaging industry.

From 2019 to 2023, the agriculture industry experienced a robust CAGR of 5.1%, reaching USD59.3 billion in production value in 2023, driven by digitalization, modernization, and infrastructure investments aimed at enhancing productivity and market access for local farmers. Conversely, the forestry industry saw a decline in production value, with a declining CAGR of 11.0% in the same period, reaching USD563.3 million in 2023.

This can be attributed to various factors like extreme weather events, supply chain disruptions, shifts in government policies and regulations affecting access to forest resources. Like forestry, the pulp, paper, and paperboard industry also faced challenges including disruptions in import of raw materials which resulted in a decline in production value, with a declining CAGR of 2.4% in the same period, reaching USD274.3 million in 2023. Despite these challenges, investments in technology, infrastructure, and product diversification are expected to drive future growth in all three sectors over the forecast period, which will consequently propel growth of the corrugated paper packaging industry in the Philippines.

| Market size of Upstream Industries, in MSP Production Turnover, 2019 -2028E | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Unit** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024 E** | **2025 E** | **2026 E** | **2027 E** | **2028 E** |
| Agriculture | USD Billion | 48.6 | 56.0 | 58.3 | 55.6 | 59.3 | 64.8 | 71.1 | 78.4 | 86.5 | 95.7 |
| | | 2019-2023 CAGR: **5.1%** | | | | | 2024E-2028E CAGR: **10.2%** | | | | |

[25] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines.

| Market size of Upstream Industries, in MSP Production Turnover, 2019 -2028E | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Unit** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024 E** | **2025 E** | **2026 E** | **2027 E** | **2028 E** |
| Forestry | USD Million | 897.1 | 1,033.4 | 1,076.4 | 839.3 | 563.3 | 612.0 | 668.0 | 732.2 | 804.7 | 885.7 |
| | | 2019-2023 CAGR: **-11.0%** | | | | | 2024E-2028E CAGR: **9.7%** | | | | |
| Pulp, Paper, and Paperboard | USD Million | 302.2 | 260.6 | 274.3 | 281.1 | 274.3 | 295.1 | 319.1 | 346.7 | 378.1 | 413.2 |
| | | 2019-2023 CAGR: **-2.4%** | | | | | 2024E-2028E CAGR: **8.8%** | | | | |

**Effect of COVID-19[26]**

The COVID-19 pandemic in 2020 caused widespread disruptions in supply chains globally, affecting multiple industries in the Philippines, including corrugated paper packaging. In particular, these manufacturers faced challenges in procuring kraft liners, made of virgin paper pulp which offer superior strength but are mostly imported due to limited local resources. Lockdown measures and job losses during this period further impacted operational efficiency, leading to delays in production and delivery of corrugated paper packaging. Some manufacturers diversified their suppliers to mitigate disruptions, while players with their own upstream resources and facilities could continue with the production of corrugated boxes and help mitigate the ill-effects of the pandemic. The disrupted global supply chains impacted the foreign supply and production of upstream pulp, paper, and paperboard materials, and in turn impacted the local production rate of corrugated paper packaging.

Despite raw material supply chain challenges, demand for corrugated paper packaging increased from 2020 to 2022, partially due to the surge in retail e-commerce. Lockdowns and remote work spurred a shift towards online shopping, prompting companies to bolster their digital presence. The pandemic-driven surge in online purchases of essential items amplified the usage of retail e-commerce and resulted in a rise in home deliveries. Consequently, the utilization of corrugated paper packaging for domestic shipments rose, dampening the decline in market performance that has arisen from supply chain related factors.

***(This space was intentionally left blank)***

[26] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines.

# BUSINESS

## OVERVIEW

Steniel Manufacturing Corporation and its subsidiaries are engaged in the manufacture and distribution of corrugated boxes. The Company is one of the oldest operating packaging manufacturers in the Philippines. STN has developed a niche in high-quality corrugated boxes for high-value consumer goods and agricultural exports. The Company has also developed strong in-house capabilities in sourcing, manufacturing, supply chain management, and quality assurance – this allows the Company to meet the demanding requirements of its clientele. STN was the largest independent manufacturer of corrugated boxes in the Philippines prior to its business slowdown amidst the Asian Financial Crisis in 1997.

STN's operations slowed down significantly after the 1997 Asian Financial Crisis, as increased competition as well as the Company's outdated infrastructure weighed on profitability. In 2006, Steniel's former shareholders authorized the Company to enter into debt rehabilitation proceedings. Petitions for rehabilitation were filed in 2007 for the Company and its subsidiaries, which were all dismissed in 2009. By 2012, a new shareholder group completed the acquisition of the outstanding debt of STN and equity interest in the Company as detailed in the History section below.

STN has a broad roster of multinational FMCGs, customers, fruit exporters, and domestic packaged food manufacturers. This includes well-known companies such as Dole Philippines, Lapanday Foods Corporation, Lapanday Diversified Products Corporation, and Philippines Spring Water Resources, among others. The Company has an aggregate production capacity of 129.0 million square feet per month across two wholly owned production plants in Mindanao.

The Company invests significant resources to ensure the quality of its products and the stability of its production. This includes the following:

- Establishment of a robust supply chain with multiple redundancies – STN sources high quality virgin pulp paper from USA, New Zealand, Finland, and Sweden, as well as high grade recycled pulp paper from Indonesia, Thailand, and Japan;
- Significant capital investment in state-of-the-art automated production lines to manufacture its corrugated boxes;
- Vertical integration efforts with in-house warehousing, adhesive manufacturing for corrugators, and ink kitchens;
- In-house quality assurance protocols and machinery to ensure that its products remain within pre-determined specifications;
- Acquisition and development of new technical innovations, such as its proprietary dehydrator and large-scale digital printer; and,
- Continuous training and talent development to ensure a deep pool of expertise.

The Company is continuously automating its process flow to maximize production capacity while ensuring quality. An overview of the Company's manufacturing flow is shown below:

- The Company obtains high quality paper reels from its global supplier list.
- The paper reels are fed into the corrugator, which manufactures the corrugated boards by pressing the paper into flutes, after which a top and bottom sheet is glued on.
- These boards are then scored/slotted, printed, and punched into the desired box shapes.
- These boxes are folded and packed and then shipped to the end customer.

The Company was incorporated on September 13, 1963 and was granted with extension of its corporate term for another 50 years on September 11, 2013 by the SEC. With the passage of the Revised Corporation Code, the Company now has perpetual existence.

## HISTORY

Steniel Manufacturing Corporation ("Steniel", "STN" or the "Company") was incorporated and registered with the Securities and Exchange Commission on September 13, 1963. It was the largest independent producer of corrugated carton boxes in the Philippines, and was listed with the PSE on November 22, 1963.

**Incorporation of Subsidiaries**

The Company and the STN Subsidiaries (collectively, the **"Group"**) are engaged in the manufacturing, processing and selling of all kinds of paper products, paper board and corrugated carton containers, and all other allied products and processes. These STN Subsidiaries are:

| STN Subsidiaries | Date of Registration | SEC Registration No. |
|---|---|---|
| Steniel Cavite Packaging Corporation (SCPC)[27] | Oct. 21, 1993 | AS093-8725 |
| Steniel Mindanao Packaging Corporation (SMPC) | June 30, 1995 | AS095-006250 |

- SCPC was incorporated and registered with the SEC on November 9, 1993 primarily to engage in the manufacturing, processing and selling of all kinds of paper products, paper board and corrugated carton containers and all others allied products and processes.

  TPC was incorporated and registered with the SEC on May 23, 1994 primarily to engage in the manufacturing, processing, purchasing, and selling on wholesale basis, paper, paper rolls, paper boards, cartons, containers, packaging material and other pulp and paper products. The registered office address and principal office of TPC was located at Hernan Cortes Street, Manduae City, Cebu, Philippines.

  In 2016, the merger between SCPC and TPC (the former as the surviving entity) was approved by the Board of Directors and shareholders of both corporations. The application for merger was approved by the SEC on May 30, 2018.

  SCPC's principal office is located at Gateway Business Park, Brgy. Javalera, General Trias, Cavite, Philippines.

- SMPC was incorporated on June 30, 1995 primarily to engage in the business of manufacturing, importing, buying, selling or otherwise dealings in, at wholesale and retail, all kinds of paper, paper rolls, paper boards, cartons, containers, packaging materials and other pulp and paper products. SMPC was a wholly-owned subsidiary of the Company.

  In December 2013, the Company sold its entire equity share in SMPC. The book value then of SMPC was Php 0.932 per share but it was sold by the Company at a price of Php 2.16 per share. The Company saw an opportunity to cash in on its investment considering that due to stagnating operations and with SMPC's increasing deficit, the continuing ownership of SMPC will further affect the deficit of STN. The sale was completed in December 2013 where STN realized a premium of Php 1.23 per share.

  In 2019, the BOD and stockholders of the Company approved the reacquisition of shares of SMPC through a share swap transaction wherein all shareholders of SMPC will exchange all their shares in SMPC for shares of the Company. In preparation for these share issuances as a result of the share swap and conversion to equity transactions, the Company's BOD approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

[27] Treasure Packaging Corporation (TPC) was merged with SCPC on May 30, 2018.

On December 29, 2020, the Company issued 269,250,000 shares to the shareholders of SMPC effecting the share swap following the SEC approval of the Company's increase in authorized capital stock on the same day. The transfer of the SMPC shares in favor of the Company was subsequently recorded after the relevant CARs were issued by the Philippine Bureau of Internal Revenue ("BIR").

SMPC's principal place of business is located at Km. 25 National Highway, Bunawan District, Davao City.

**Petitions for Rehabilitation and Debt Restructuring**

In 2000, the Company entered into a loan agreement with a group of banks and financial institutions pursuant to which the Company was granted a P636 Million term loan. The loan was secured by real and chattel mortgages. Unfortunately, due to the working capital drain as a result of prior debt service payments and the difficult business and economic conditions, the Company found it difficult to sustain further payments of debt while at the same time ensuring continued operations. STN failed to settle its outstanding short-term and long-term loans which were supposed to mature at various dates in 2004, 2005, and 2006 and was declared by the lending banks in default in May 2006. The lending banks subsequently sold and assigned the loan balances.

In July 2006, the Company's shareholders approved the filing of borrower-initiated petitions for rehabilitation. At the time of the filing of the said petitions, the Company lacked liquidity but had assets that can adequately cover its liabilities. Following the Company's disclosure of the authorization to enter into rehabilitation proceedings, PSE imposed a trading suspension on the shares of the Company on July 5, 2006.

From 2007 to 2009, petitions for corporate rehabilitation were filed with different regional trial courts, which were all dismissed in 2009.

In 2009, the Company commenced discussions on the restructuring of the loan. In October 2010, STN executed the Amended and Restated Omnibus Agreement (the "Restructuring Agreement") whereby the outstanding principal and accrued interest expense as at September 30, 2010 was restructured for 25 years.

In order to reduce the loan, the parties agreed to (i) exchange or dacion (a) all of the outstanding common and preferred shares of stock in Steniel Land Corporation and (b) identified idle assets of STN and SCPC in favor of Greenkraft. and (ii) convert the loan into equity though the issuance of shares from STN's unissued capital stock.

As at December 31, 2023, the restructured loan was fully paid.

**Shareholdings**

Prior to 2006, Steniel (Netherlands) Holdings B.V. ("**SNHBV**"), a company incorporated in Amsterdam, The Netherlands, owned 82.2716% of the shares of the Company. SNHBV was then 100%-owned by Steniel (Belgium) Holdings NV ("Steniel Belgium"). In 2006, Steniel Belgium sold its shares in SNHBV to certain directors and officers of the Company. With the sale of shares, SNHBV became the ultimate parent company.

On the same year, the Company failed to settle its loans. Due to the working capital drain as a result of prior debt service repayments and the difficult business and economic conditions, the Company found it difficult to sustain further payments of debt while at the same time continuing with its operations. The Company filed petitions for rehabilitation while the lending banks sold and assigned the loan balances. In 2010, the Company executed the Restructuring Agreement with the new creditors.

Consequent to the restructuring of the loan in 2010 as discussed above, the Company issued a total of 123,817,953 shares to Roxburgh through the conversion of debt to equity. The conversion resulted to the reduction of the Company's outstanding debt and recognition of additional paid in capital. As a result, Roxburgh became the owner of 12.3818% of the Company, while the ownership of SNHBV and the public was reduced to 72.0849% and 15.5333%, respectively.

In January 2012, the shareholders of SNHBV entered into a Share Purchase Agreement with Right Total for the acquisition of 100% of the issued and outstanding shares of SNHBV. With the sale of shares of SNHBV, Right Total became the owner of the 72.0849% shares of SNHBV consequently making Right Total as the ultimate parent company of the STN.

Also in January 2012, the Company received a tender offer report from Right Total offering to purchase the 279,151,088 shares held of the minority investing public or 27.92% of the total issued shares at a price of Php0.0012 per share or an aggregate price of Php 334.9 million. A total of 2,115,692 common shares were tendered and accepted by SNHBV, constituting 0.0021% of the total outstanding capital stock of the Company. Such accepted tender offer did not significantly change the percentage ownership of the minority investing public.

In June 2019, the Company's Board of Directors approved the reacquisition of SMPC through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares. The Company also approved the conversion of the loans extended by Greenkraft and Roxburgh into equity.  These approvals were made in view of the need to address the negative stockholders' equity of the Company.

In preparation for these share issuances, the Board approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held in July 2019 and reconfirmed in November  2020.

In October 2020, the Buyer Group entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares, equivalent to 64.99% of the total shareholdings of the Company. In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company , excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. . A total of 11,780,533 common shares of STN were tendered, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale in November 2020 involving the 649,908,308 shares of the Company.  As of the date hereof, the transfer of the 649,908,308 common shares in favor of the Buyer Group has been recorded in the books of STN. The transfer effectively reduced the shareholding of SNHBV to 5% of the Company's outstanding capital stock.

In December 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group and Roxburgh.  The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for STN shares issued to the Buyer Group; and (ii) partly subscribed through conversion of loans extended by Greenkraft and Roxburgh into equity.

In October 2023, SNHBV and Greenkraft sold a total of 130,940,604 shares for purposes of complying with the minimum public ownership float requirement of at least 20% of a company's outstanding capital stock.  As of the date hereof, the Company's major shareholders are comprised of the STN Principals.

**Recent Acquisitions**

The Company, through SCPC and SMPC, acquired the box plant assets used by Dole Philippines, Inc. ("Dole") in Davao del Norte for the production of its packaging materials. Dole is engaged in producing fresh fruits for export and local sales.

The box plant assets, all located in Davao Del Norte, consist of the buildings, other land improvements, machines, motor vehicles as well as the land where the box plant is located.  SCPC acquired the land from Diamond Farms, Inc. on December 1, 2021 and the rest of the box plant assets from Dole on January 24, 2022.  Dole turned over the operations of the box plant assets on February 24, 2022.

Simultaneous with the acquisition of the box plant assets was the execution of an agreement between Dole and SMPC for the supply of boxes, labels and other packaging materials made of paper related products.

With a minimum purchase commitment from Dole, the Supply and Purchase Agreement (also referred as Long Term Supply Agreement or LTSA) is effective from February 24, 2023 to February 23, 2032, and later extended to February 23, 2033.

With the foregoing acquisitions and contractual arrangements with Dole, the Company, through SCPC and SMPC, expects to increase STN's production capacity from 64.5 million square feet per month to 129 million square feet per month and to double its revenues.

**Backdoor Listing**

On May 22, 2023, the Company was advised by the PSE that the reacquisition of SMPC resulted in a change in STN's business as well as the change in control over the Company; hence, STN is subject to the requirements imposed on companies undergoing backdoor listing. The Company was required, among others, to (i) comply with the minimum public ownership requirement of at least 20% of the outstanding capital stock, and (ii) conduct a public offering of its shares.

In compliance with the first requirement of the PSE, some shareholders of STN offered to sell their shares to the public. In October 2023, SNHBV and Greenkraft sold a total of 130,940,604 shares to the public for purposes of complying with the minimum public ownership requirement. With the sale of the said shares, the Company's public float increased to 22.27% as of November 21, 2023. After compliance with remaining PSE requirements, the trading suspension on STN's shares was lifted on April 29, 2024.

This Offer, on the other hand, is being made in compliance with second the requirement above; i.e. a public offering of at least ten percent (10%) of its issued and outstanding shares within one (1) year from closing or completion of the transaction giving rise to backdoor listing.

## KEY MILESTONES

| Date | Milestones |
|---|---|
| 1963 | Incorporation of STN |
| 1993 | Listing of STN with the PSE; Incorporation of SCPC |
| 2006 | Suspension on trading of STN shares; Sale of SNHBV shares |
| 2010 | Execution of the Amended and Restated Omnibus Agreement |
| 2012 | Sale of SNHBV shares to Right Total |
| 2013 | Divestment of interest in SMPC |
| 2019 | Approval by STN's Board and shareholders to reacquire SMPC and to convert loans into equity |
| 2020 | Acquisition by STN Principal of 64.99% of STN from SNHBV; Approval by the SEC of STN's application for increase of capital stock from P1 Billion to P2 Billion |
| 2021 | Acquisition by SCPC of the box plant assets in Davao del Norte |
| 2023 | Sale of shares resulting to increase of public float |
| 2024 | Lifting of trading suspension |

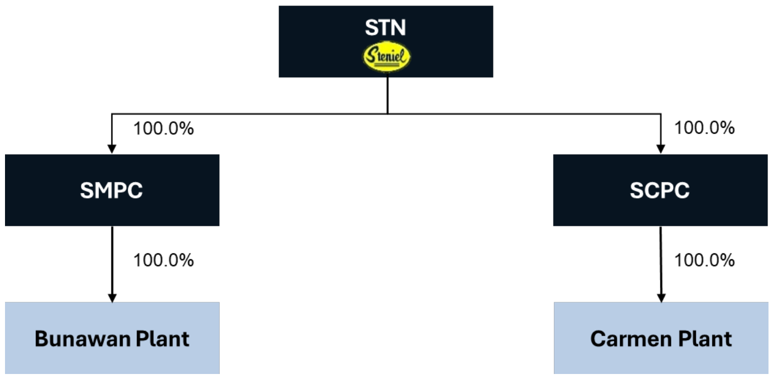
## RECENT ISSUANCE OF SHARES

On December 29, 2020, the Company issued a total of 418,821,081 common shares upon approval by the SEC of its application for increase of authorized capital stock from Php1 Billion to Php2 Billion. The subscription was partly paid by debt-to-equity conversion and partly through a share for share swap transaction. By virtue of this activity, (i) the Company's debt was reduced by Php149,562,081.00 upon conversion of the equivalent debt into equity, and (ii) SMPC became its wholly owned subsidiary.

Said issuance is considered an exempt transaction under SRC 10.1 (e) or the sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock and (i) or the subscriptions for shares of the capital stock of a corporation prior to the incorporation thereof or in pursuance of an increase in its authorized capital stock under the Corporation Code, when no expense is incurred, or no commission, compensation or remuneration is paid or given in connection with the sale or disposition of such securities and only when the purpose for soliciting, giving or taking of such subscriptions is to comply with the requirements of such law as to the percentage of the capital stock of a corporation which should be subscribed before it can be registered and duly incorporated, or its authorized capital increased.

Apart from the foregoing, there are no recent sales of unregistered or exempt securities.

**CORPORATE STRUCTURE**




The Company currently has an authorized capital stock Php2,000,000,000.00, divided into 2,000,000,000 common shares with a par value of Php1.00 each, of this 1,418,812,081 shares are subscribed and paid up.

**STN SUBSIDIARIES**

**Steniel Mindanao Packaging Corporation**

SMPC was incorporated on June 30, 1995 primarily to engage in the business of manufacturing, importing, buying, selling or otherwise dealings in, at wholesale and retail, all kinds of paper, paper rolls, paper boards, cartons, containers, packaging materials and other pulp and paper products.

As at December 31, 2012, SMPC was a wholly-owned subsidiary of the Company. In 2013, the Company sold its entire equity share in SMPC. The book value then of SMPC was Php0.932 per share but it was sold by the Company at a purchase price of Php2.16 per share. The Company saw an opportunity to cash in on its investment considering that due to stagnating operations and with SMPC's increasing deficit, the continuing ownership of SMPC will further affect the deficit of STN. The sale was completed in December 2013 where STN realized a premium of Php1.23 per share.

On June 26, 2019, the Company approved the reacquisition of SMPC through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares. In preparation for these share issuances, the Company's Board approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On December 29, 2020, the Company issued 269,250,000 STN shares to the shareholders of SMPC effecting the share swap following the SEC approval of the Company's increase in authorized capital stock on the same day. The transfer of the SMPC shares in favor of the Company was subsequently recorded after the relevant CARs were issued by the Philippine Bureau of Internal Revenue ("**BIR**"). As of the date hereof, the Company is the registered owner of 100% of the outstanding capital stock of SMPC.

Through the reacquisition of SMPC, the Company can take advantage of the profitable operations of SMPC. Reacquiring SMPC as subsidiary permits the Company to enjoy, indirectly, the existing client base and market presence of the company, which SMPC managed to develop and improve following the divestment of STN in 2013. The reacquisition resulted to increased revenues for the Company.

SMPC is responsible for operations of the Bunawan Plant, the Carmen Plant, and the Gensan Plant.

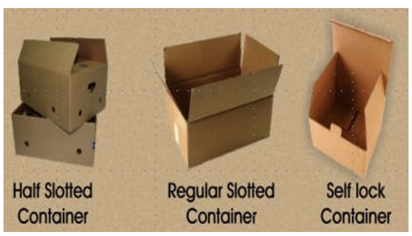
***Bunawan Plant***

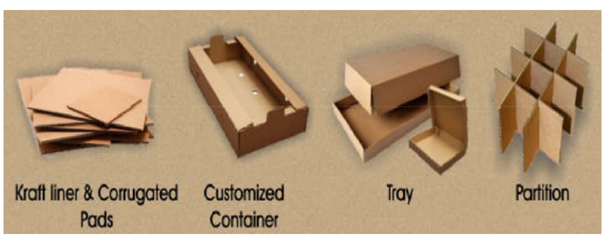
The Bunawan Plant was established in 1995 and is currently located on Km. 25 National Highway, Bunawan, Davao. The production facility spans 18,000 sqm and has an aggregate production capacity of 64.5 million square feet per month. Key customers that the Bunawan Plant caters to include Dole Philippines,, Lapanday Farms, and Monde Nissin. As of September 30, 2024, the Bunawan Plant has a production uptime of around 75.0%.

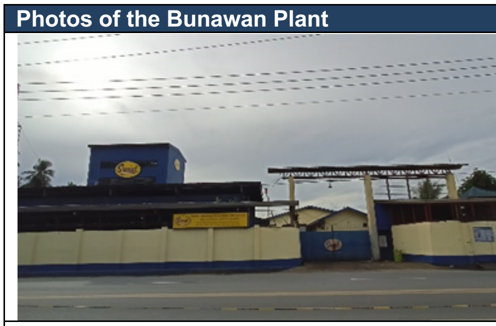
The Bunawan Plant employs a comprehensive suite of equipment designed to automate the manufacturing process. Key equipment include:

a. 2.2 meters corrugating line
b. Flexo-folder gluer
c. Digital printers
d. Flexo-rotary die cutter

Products manufactured at the Bunawan Plant include:




| **Photos of the Bunawan Plant** | |
|---|---|
|  |  |
| Bunawan Plant Façade | Paper Rolls Storage |

| | |
|---|---|
|  |  |
| Corrugating Line | Converting Machine |

***Carmen Plant***

The Carmen Plant is located on Purok 10B, Alejal, Carmen, Davao del Norte. This facility was initially owned by Dole Philippines Inc. ("**Dole**") and an affiliate, Diamond Farms Inc., then acquired by SCPC. The production facility spans 33,000 sqm and has an aggregate production capacity of 64.5 million square feet per month. As of September 30, 2024, the Carmen Plant has a production uptime of around 60.0% - 70.0%, as it generally caters to the requirements of Dole Philippines[28].

The Carmen Plant employs a comprehensive suite of equipment designed to automate the manufacturing process. Key equipment includes:

a. 2.2 meter corrugating line
b. 2.2 meters corrugating line
c. Flexo-folder gluer
d. Flexo-rotary die cutter

Products manufactured at the Carmen Plant include:

Corrugated Boxes

Corrugated Trays

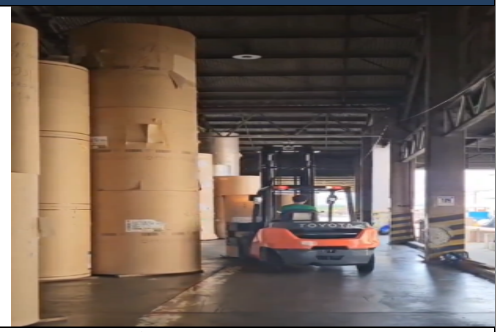
Auxiliary Packaging Materials

Dividers

[28] Note that there are no contractual limitations on the production capacity of the Carmen Plant – however, most of the Company's current demand (ex-Dole) is serviced by the Bunawan Plant.

**Photos of the Carmen Plant**

Carmen Plant Façade



Paper Rolls Storage

Corrugating Line

Converting Machine

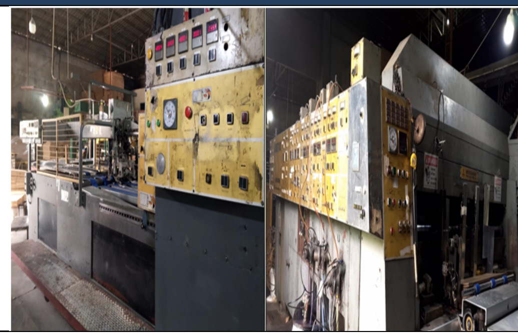
**Gensan Plant**

The Gensan Plant was established in 2003 and is currently located on BTY Compound National Highway, Apopong, General Santos City. The production facility spans 1,320 sqm and is focused on converting corrugated boards into finished goods. The Gensan Plant has an aggregate converting capacity of 6.6 million square feet per month. Key customers that the Gensan Plant caters to are mainly seafood processing companies within the region. As of September 30, 2024, the Gensan Plant has a production uptime of around 70.0%.

The Gensan Plant employs a comprehensive suite of equipment designed to automate the manufacturing process. Key equipment includes flexo-folder gluer.

Products manufactured at the Gensan Plant include:



| Photos of the Gensan Plant | |
|---|---|
|  |  |
| Gensan Plant Façade | Converting Machine |

**Steniel Cavite Packaging Corporation**

SCPC was incorporated and registered with the SEC on November 9, 1993 primarily to engage in the manufacturing, processing and selling of all kinds of paper products, paper board and corrugated carton containers and all others allied products and processes.

On June 30, 2006, SCPC's Board of Directors decided to discontinue its packaging operations in light of the difficult economic and business conditions and the continued business losses experienced by the company. Since it discontinued its packaging operations until 2015, SCPC was engaged in purchasing, processing and reselling various paper products and the leasing of its machinery and equipment.

In 2021, SCPC acquired the packaging operations of Dole in Davao Del Norte for the production of its packaging materials. Dole is engaged in producing fresh fruits for export and local sales.

The box plant assets, all located in Davao Del Norte, consist of the buildings, other land improvements, machines, motor vehicles as well as the land where the box plant is located. SCPC acquired the land from Diamond Farms, Inc. on December 1, 2021 and the rest of the box plant assets from Dole on January 24, 2022. Dole turned over the operations of the box plant assets to SCPC on February 24, 2022.

Currently, SCPC owns the Carmen Plant; however, SCPC relies on SMPC to operate the Carmen Plant. This acquisition had several key benefits:

a. Expansion of STN's customer base, as the packaging requirements of Dole are contractually obligated to be sourced from the Carmen Plant;
b. Expansion of production capacity;
c. Diversification of product portfolio; and,
d. Protect STN's overall market share in the Mindanao area.

As of September 30, 2024, SCPC's operations are focused on the leasing of the Carmen Plant to SMPC.

**PRODUCTION PROCESS**

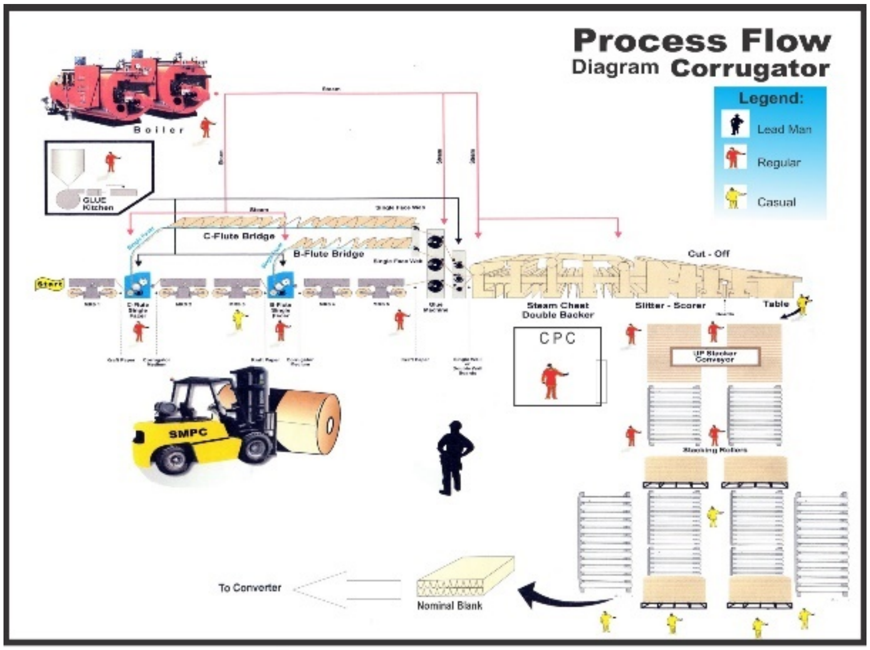
Steniel manufactures corrugated boxes tailored to high value consumer products and agricultural exports. Products such as bananas and pineapples are very fragile and require careful handling. To maintain the value of these goods, high quality packaging is key. As a result, the Company must ensure that its products meet the specifications of its exacting clientele.

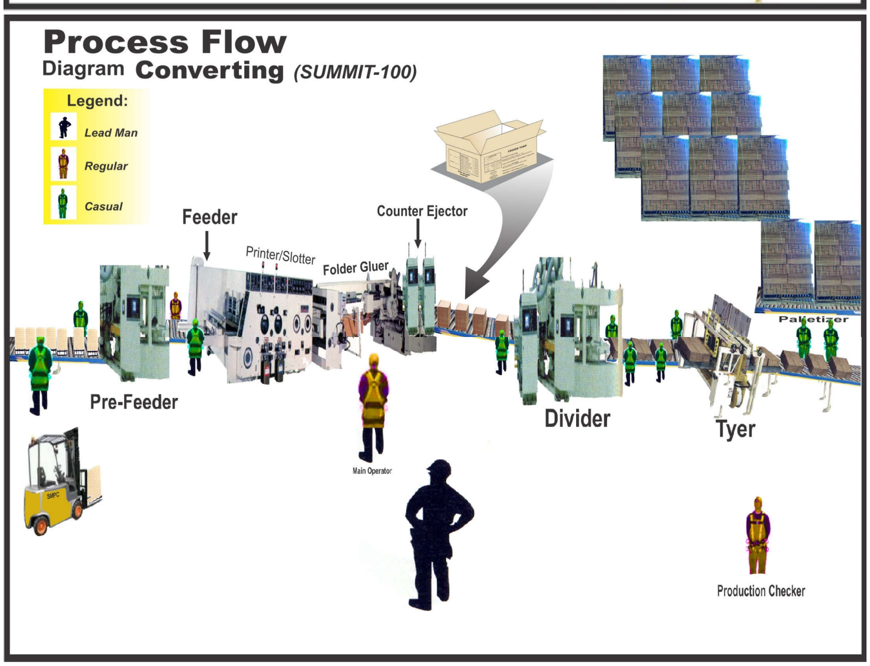
To ensure that the Company's products meet the requirements of its customers, Steniel does the following:

a. STN assists customers in determining and designing the corrugated box, particularly with respect to the specific materials and strength requirements;

b. STN maintains a robust supply chain to ensure that it has the proper raw materials;
c. STN has in-house production capabilities of several key inputs to ensure that it has a steady supply of high grade raw materials.
d. STN has a quality assurance department to ensure that its production runs remain within the predetermined specifications.

The Company's production process is enumerated below, with an illustration of the process flow immediately after:



## COMPETITIVE STRENGTHS

### Established corrugated box brand

Having been established in 1963, Steniel is one of the oldest operating packaging manufacturers in the Philippines. Moreover, prior to its debt rehabilitation proceedings in 2006, the Company was the single largest independent manufacturer of corrugated fiberboard in the country. As such, Steniel has a strong legacy which serves as a significant competitive advantage.

STN maintains its brand by ensuring the quality of the Company's products. The Company routinely invests in new technologies, such as its digital printers. Moreover, the Company maintains in-house quality assurance laboratories to ensure that its production runs are within the specifications indicated by its customers. Finally, the Company uses high-quality input products to provide strength and reliability to its products. These measures guarantee the quality and consistency of the Company's products.

Steniel has an in-house team responsible for routine maintenance of the machines. The Company has a pre-determined schedule of weekly, monthly, and annual maintenance processes. This ensures that STN can maintain its production output. As of September 30, 2024, the Company has recorded an uptime rate of 60.0 – 70.0%.

STN's strong reputation has helped the Company develop a customer list comprised of well-known local and multinational FMCGs and premium agricultural exporters. A detailed discussion of the Company's customer base is provided in the Business section – Customers of this Prospectus.

### Long-standing customer relationships

As Steniel is one of the oldest operating packaging manufacturing companies in the Philippines, the Company has developed a long relationship with its customers. Moreover, Steniel's focus on quality, consistency, production stability, and customizability translate to customer satisfaction and good retention rates.

Further, senior management regularly engages with major customers to deepen rapport with its clientele. This helps mitigate the threat of substitution and create barriers to entry.

A detailed discussion of the Company's customer base is provided in the Business section – Customers of this Prospectus.

### Experienced and seasoned management team

The Company is led by an experienced management team with an established track record. Note that the senior management team of Steniel collectively has over 100 years of experience. The Company is led by Mr. Nixon Y. Lim, who has worked extensively in the packaging business, particularly in the field of sales, marketing, manufacturing, and finance. He holds a degree in BS Physics from De La Salle University Manila.

Ms. Eliza C. Macuray, the Company's CFO, has very deep experience in the packaging industry as well. Prior to joining STN, her previous work experience was with United Pulp and Paper Co., Inc. for more than 2 decades, where she gained her experience in the paper business, particularly in finance with focus on tax matters. She holds a degree from Arellano University for BS Commerce, major in Accounting.

Mr. Esteban C. Ku, a director on the Company's Board, has extensive experience in plant operations, sales, marketing, and finance. His prior role includes acting as the production supervisor for International Pharmaceutical, Inc. in Xiamen. He is a licensed chemical engineer from the University of San Carlos.

Mr. Paulino B. Ko is the general manager of SMPC and oversees the operations of the Bunawan Plant and the Carmen Plant. Prior to Steniel Manufacturing Corporation, Mr. Ko held various roles within State Investment House, State Land Investment Corporation, and also acted as the general manager of Perlon Textile Mills. He is a licensed mechanical engineer from the Mapua Institute of Technology.

Prior to the entry of the STN Principals, the Company's operations were significantly distressed. Notably, Steniel's prior shareholders authorized the Company to enter debt rehabilitation proceedings. However, the STN Principals were able to improve operations and acquire additional production facilities. The Company has posted revenue growth of 54.5%, 72.8%, and 8.2% for the financial years ended December 31, 2023, 2022 and for the period ending September 30, 2024, with a net income margin of 1.3%, 3.5%, and 4.15%, respectively.

**Resilient supply chain**

Steniel has developed a strong supply chain backed by an in-house purchasing team. The Company has established a deep supply chain that includes, but is not limited to, the European region as well as the Asia Pacific region. STN maintains a broad base of suppliers to ensure a stable supply of high quality pulp paper at a cost competitive price. Moreover, the Company is able to manage risks associated with regional disruptions and maintain production rates. STN also maintains in-house capabilities to ensure stable supplies of key ingredients. This includes proprietary adhesive manufacturing for corrugators, and ink kitchens. Steniel also owns a one hectare warehouse to opportunistically capitalize on price fluctuations of its raw materials.

The Company continuously sources various grades of pulp paper to ensure that the manufactured product is in line with the specifications indicated by its customers. This also ensures that its products remain competitive in the market by providing more cost-conscious customers other alternatives right sized for their products.

All raw materials are rigorously tested to ensure compliance with internal standards. The Company maintains in-house quality assurance laboratories to assess these products. Steniel invests in continuous improvement initiatives, leveraging technology, on-the-ground insights, and feedback from suppliers to enhance efficiency, reduce lead times, and optimize costs.

Notably, Steniel's Carmen Plant currently has a production uptime of around 70.0%. A detailed discussion of suppliers is provided in the Business section – Suppliers of this Prospectus.

**Strategically located production facilities in Davao**

Most of the Company's products are manufactured in Steniel's Carmen and Bunawan Plants,, both located in the Davao region. These plants cater to the regional requirements of key local and multinational FMCGs, thereby providing optimal operation efficiency and market accessibility. Note that individual corrugated boxes are space intensive and holds little inherent value. As such, long-distance shipping of these products is not economically feasible, as the high competition translates to tight profit margins. This implies that local providers of high-quality packaging products will become the preferred suppliers.

Moreover, Steniel's two production facilities are within close proximity to each other. This allows the Company to flexibly shift production capacity across both facilities depending on production requirements. This provides increased operational efficiency, cost-effectiveness, and overall market responsiveness. The two plants also provide built-in redundancies – in the event that one plant is unable to produce, the Company can increase production in the other. This allows Steniel to ensure stable output for its customers.

The Company's production plants are also located near key highways and shipping ports with good access to deep pools of labor. This allows Steniel to minimize its logistics costs while ensuring that STN can provide a stable supply of packaging products to its customers. Additionally, the proximity of these facilities to each other streamlines the Company's supply chain management as raw materials can be easily shared and transferred between plants and minimizes supply disruptions. Moreover, the geographic proximity of the plants to each other also allows Steniel to capitalize on economies of scale. Bulk purchasing, shared logistics, and common administrative functions help improve efficiency.

A detailed discussion of the Company's production facilities is provided in the Business section – Key Subsidiaries of this Prospectus.

## PLANS AND PROSPECTS

**Deepen relationships with existing customers**

Steniel has strong relationships with key fresh fruit producers and FMCG companies within the Mindanao area. Nonetheless, Steniel continuously looks for opportunities to further deepen these relationships to increase customer retention. These efforts include:

- Focus on customer service;
- Providing high quality products at a competitive price;
- Ensuring the stability of production to ensure customers able to keep adequate inventories of corrugated boxes;
- Steniel's senior management directly liaises with key management of its clientele to deepen their personal relationships;
- Continuous product development to ensure Steniel boxes are the packaging of choice; and
- Development of ancillary product lines (such as paper liners and plastic stickers for bananas) to capture more of their customers' requirements and value chain.

**Develop new customer relationships outside of agriculture**

The majority of the Company's existing clientele is focused on the agriculture industry. However, STN believes in diversifying its revenue streams and enhancing the stability of its cashflows. As such, the Company is looking to expand to customers in other industries, such as FMCG, plasticwares, processed food, and beverages.

A more comprehensive discussion on Steniel's customer acquisition efforts can be found in the Business section – Customers of this Prospectus.

**Focus on future expansion facilities**

Euromonitor has noted that the corrugated paper packaging industry should grow at a CAGR of 7.3% between 2024 and 2028. STN believes that the Company is well positioned to capitalize on the industry's growth, given its strong brand, resilient customer relationships, strong management profile, and robust supply chain. To further strengthen its position in the market, the Company intends to develop a new corrugated box plant in Panabo, Davao del Norte.

To fund the early stage development of this new facility, STN is looking to earmark Php250.0 million from the Net Offer Proceeds. Note that as of September 30, 2024, the Company has two production plants and a converting facility. These two facilities have an aggregate production capacity of 129.0 million square feet per month, and is currently operating at 60-70% of total capacity.

A more comprehensive discussion of this expansion can be found in the Use of Proceeds section of this Prospectus.

**Assess acquisition opportunities of businesses**

Steniel is continuously looking to increase market share and further consolidate its position in the Mindanao market. As such, the Company remains open to opportunistic acquisitions to expand inorganically. Notably, STN acquired the box plant of Dole through the Stanfilco Acquisition on February 2022, which translated to a 54.5% increase in revenues in 2023 to Php3.4 billion.

Management also believes that these opportunistic acquisitions help the Company:

- Consolidate its position in the market as the supplier of choice for quality corrugated boxes;
- Improve operational efficiencies through the development of synergies across its facilities;
- Introduce further flexibility in its operations and potential redundancies, which should ensure its stability of production; and,
- Acquire new customers previously cornered by its competitors.

## KEY STRATEGIES

### Invest in technology

The Company aims to continually invests in new technologies to improve efficiency and increase the quality of its products. Steniel owns automated machines which can produce corrugated packaging efficiently. These machines require significant capital and form a strong barrier to entry. Key equipment include:

- 2.2 meters corrugating line
- Flexo-folder gluer
- Digital printers
- Flexo-rotary die cutter

### Focus on efficiency

As Steniel's products are commodified, the industry is subject to very strong domestic competitive forces. As such, the Company continually looks to improve production efficiency, while maintaining quality. These initiatives include:

- Close coordination with customers and across departments to establish the correct box specifications;
- Ensure adequate supply of raw materials to facilitate continuous production;
- Routine maintenance of its equipment to ensure uptime;
- Acquisition and retention of talent to ensure smooth operations;
- Close monitoring of production lines to minimize production errors and minimize wastage;
- In-house quality assurance to minimize product returns; and,
- Close coordination with in-house and third-party logistics partners.

These efforts minimize wastage and facilitate continuous production runs – which helps protect the Company's profitability.

### Expand manufacturing capacity

Euromonitor noted that the corrugated box industry is highly fragmented – as such, Steniel's management believes that there is an opportunity for consolidation. This will allow the Company capture more of its customers' demand, thereby deepening its relationship with its clients. Moreover, this will also allow STN to potentially acquire new customers and further gain market share.

To execute this, STN management remains open to opportunistic acquisitions to expand inorganically. The Company is currently focused on bolt-on acquisitions to minimize interruptions to its day-to-day operations. The Company believes it has adequate resources to acquire potential targets through its organic cashflows and leverage. Notably, STN through SCPC and SMPC, acquired the box plant assets used by Dole in Davao del Norte for the production of its packaging materials on February 2022. This acquisition translated to a 54.5% increase in the Company's revenues in 2023 to Php3.4 billion.

As of the financial period ending December 31, 2023 and September 30, 2024, STN had a debt-to-equity ratio[29] of 1.6x and 1.5x.

### Diversify product types

Steniel believes in diversifying its revenue streams to preserve the stability of its cashflows. As such, the Company is looking at expanding its product portfolio into ancillary products. These other products include paper liners, which are used to protect sensitive products, as well as flexible plastic packaging (e.g., stickers on agricultural produce).

STN believes this should provide additional revenue streams, increase customer retention, and further capture additional value from its existing clientele.

[29] Calculated as total bank debt / total equity.

### Develop talent pool

Steniel continues to invest in developing its employee pool, comprised of in-house and external talents. STN believes that its employees are a strong competitive advantage, and ensure that the Company is able to provide good customer service and high quality products. It continues to foster the growth and development of its talent pool, thereby managing attrition risk and ensuring a more dedicated workforce.

The Company provides ongoing technical and soft-skills training to key employees to ensure that its workforce is well-equipped to meet evolving business needs. Moreover, STN also fosters a culture of mentorship, wherein experienced employees mentor newer team members, sharing valuable knowledge and career advice. Additionally, high-potential employees receive personalized executive coaching to prepare them for leadership roles.

STN believes that its focus on developing talent pool is essential to its succession planning strategy. By nurturing its employees and preparing them for future leadership roles, Steniel is building a resilient and dynamic organization poised for continued success. The Company's commitment to promoting from within not only enhances employee satisfaction but also ensures that Steniel remains competitive.

### Focus on customer service

Steniel believes that a strong focus on customer service is critical to its business plans. As the industry is very competitive, STN's strong relationships with its customers continue to be a strong differentiating factor. Senior management regularly engages with major customers to deepen rapport with its clientele. This helps mitigate the threat of substitution and create barriers to entry.

Steniel focuses on providing high-quality corrugated boxes at a competitive price. Moreover, Steniel also designs its boxes in line with the requirements of its customers, to ensure that its products meet quality criteria at a competitive rate. STN also invests in quality assurance to ensure that its products are manufactured within pre-determined specifications. Finally, the Company also provides strong after-sales support – any returns are handled promptly and discussed with customers. By consistently delivering strong service, Steniel has earned the loyalty of its customers, many of whom have been with the company for years.

## OPERATIONS

### Marketing and sales

The Company maintains a dedicated sales team with a proprietary customer list. To develop its client base, STN primarily relied on the network and professional relationships of the STN Principals. Moreover, the Company continuously develops its pipeline of active customers by leveraging on Steniel's strong brand equity developed through its long history. STN also continuously supports its clients' events and participates in major trade shows of key industries, such as banana and tuna.

Steniel mainly relies on its strong brand equity and reputation for quality to entice new customers. However, the Company makes strong efforts to satisfy its clientele. This includes having an in-house design studio, as well as remaining very flexible in terms of product specification. The Company can work alongside its customers to ensure that the packaging design and specifications are tailored to its customers' specific requirements.

### Credit and collection

STN maintains billing and collection teams servicing each operational facility. Payment terms range from 60 – 90 days upon receipt of billing invoice.

To ensure collection, STN regularly monitors the status of collections of each customer. It also regularly sends reminders to clients of any upcoming payment schedule to ensure timely payments and avoidance of penalties for late payments. Moreover, STN ensures ease of payment to its customers by offering different modes of payment. Payments can be settled through, cash, check or online bank transfers.

**Financing**

The STN Subsidiaries maintain a prudent mix of debt and equity to maximize shareholder returns while maintaining a sustainable capital structure. The table below highlights the outstanding debt facilities of STN as of September 30, 2024:

| Borrower | Lender / Bank | Facility size | Pricing | Payment structure | Security / collateral |
|---|---|---|---|---|---|
| **Term Loan** | | | | | |
| SCPC | BDO | 519,770,514* | Prevailing Bank Lending Rate | 7 years monthly amortization | Land, Building, and Suretyship |
| **Working Capital Lines** | | | | | |
| SMPC | BDO | 1,505,000,000.00 | Prevailing Bank Lending Rate | 30 to 180 days | Suretyship |
| SMPC | BPI | 910,000,000.00 | Prevailing Bank Lending Rate | 30 to 240 days | Suretyship |
| SMPC | Eastwest Bank | 320,000,000.00 | Prevailing Bank Lending Rate | 30 to 180 days | Suretyship |

*SCPC's portion of the loan under the Omnibus Loan and Security Agreement dated November 29, 2021.

**Suppliers**

Paper is the key input product used by Steniel to manufacture corrugated boxes. To ensure the quality of its products and the stability of its production, Steniel relies on a broad base of paper suppliers. This strengthens the Company's supply chain by introducing redundancies in the event of paper shortages. Moreover, the Company uses several grades of paper, depending on the specifications stipulated by its customers. This allows STN to offer a broader suite of products to match its customers' price points. Key suppliers include providers from Japan, New Zealand, the United States, Sweden, Indonesia, and the Philippines. Meanwhile, STN relies on various local suppliers to provide ancillary inputs such as starches for its adhesives and dyes for its inks.

The Company deals directly with these suppliers through its in-house procurement team. This allows Steniel to develop deeper relationships with upstream manufacturers and further improves stability of supply. The Company has a proprietary warehouse where raw materials are stored. This allows STN to strategically increase paper inventory during low paper prices to maximize profitability .

**Customers**

The corrugated box industry is very competitive, as the products have been commodified. However, as per Euromonitor, demand can be categorized into two segments:

- Discerning buyers: these customers have very exacting standards, as they have stringent production conditions to ensure the quality of their products. They also produce relatively high-value products – as such, these customers require high-quality corrugated boxes to protect these goods. Moreover, these customers must protect their brand perception – as such, production defects will not be acceptable.
- Value buyers: these customers produce relatively low-value products with very tight margins. As such, these customers are more price sensitive and are less stringent with the quality of the corrugated box.

While Steniel caters to a broad base of customers, it is one of the few suppliers that can cater to Discerning Buyers, as described by Euromonitor[30]. This is attributed to the Company's deep supplier base, robust supply chain, strong manufacturing capabilities, and long-spanning relationships with these customers. A breakdown of the Company's key customers and their corresponding contributions to STN's revenue is shown below:

[30] Euromonitor International. (2024, March). Corrugated Paper Packaging in the Philippines. Discerning Buyers are described by Euromonitor as "[Buyers] who seek packaging stability and strict adherence to specifications".

| Industry | % of revenues | |
| --- | --- | --- |
| | For the year ended December 31, 2023 | For the nine months ended September 30, 2024 |
| Fresh Fruits | 82.0% | 78.46% |
| Food and Others | 8.9% | 9.55% |
| Fresh and Canned Tuna | 4.3% | 6.15% |
| Beverages | 3.0% | 4.27% |
| Processed food | 1.8% | 0.39% |

Currently, Steniel's manufacturing plants are all located within Mindanao. As such, the Company focuses on the local market within the region. Given the logistical challenges and cost implications associated with shipping corrugated boxes over long distances, box packaging plants generally cater to highly localized markets, as per Euromonitor. By ensuring the strategic location of its production facilities in Mindanao, Steniel ensures proximity to its customers, facilitating efficient and cost-effective delivery of its products.

The Company has developed relationships with key customers across various industries, reflecting its commitment to customer satisfaction and loyalty. These relationships, cultivated over years of collaboration, are characterized by mutual trust, reliability, and a deep understanding of customer needs. Through strategic customer coding, Steniel can highlight the diversity of its client base, spanning industries such as food and beverage, agriculture, manufacturing, and logistics. The tenure of these relationships underscores Steniel's reputation as a trusted partner in the packaging industry, with some partnerships spanning decades.

**Employees**

As of September 30, 2024, STN and the STN Subsidiaries collectively have 255 regular employees, 18 probationary employees, and 310 contractual employees, totaling 583 employees.

As of the date of this Prospectus, the Company does not intend to increase its manpower complement for the next 12 months.

## COVID-19 RESPONSE

The COVID-19 pandemic created economic disruption, uncertainty, and volatility, all of which affected and may continue to affect the Company's businesses. Although the Company has implemented numerous initiatives to mitigate the adverse effects of the pandemic, the duration and extent of these effects are beyond the Company's control. As of the date of the Prospectus, quarantine restrictions are still in place in the Philippines and may be made more stringent if COVID-19 cases rise.

Due to numerous uncertainties and factors arising from the pandemic that are beyond the Company's control, it may be difficult to predict the pandemic's long-term effect on the Company, its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

a. The severity and duration of the pandemic, including whether there are subsequent waves or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;
b. The extent and timeliness of the national and local government's response to the pandemic, including but not limited to, quarantine restrictions as well as vaccination procurement and deployment programs;
c. Restrictions on business operations, including complete or partial closure of the buildings;
d. Economic measures, fiscal policy changes, or additional measures that have not yet been implemented;
e. The health of, and effect of the pandemic on, the Company's personnel and the Company's ability to maintain staffing needs to effectively sustain its operations;
f. Evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
g. Volatility in the credit and financial markets during and after the pandemic; and

h. The pace of recovery considering the rebound in consumer confidence, driven by government and economic response.

The extent to which the COVID-19 pandemic will impact the Company will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, in the Philippines and internationally, by governments, central banks, healthcare providers, health system participants, other businesses, and individuals, all of which are highly uncertain and unpredictable. To the extent the COVID-19 pandemic adversely affects the Company's business and financial results, it may also have the effect of heightening many of the other risks described in this Prospectus.

Considering the evolving nature of the pandemic, the Company continues to follow the maximum health protocols imposed by the national government, as well as the relevant local government units, while performing the necessary works to deliver the projects on schedule. The Company implemented and continues to practice proactive measures to minimize, if not totally, eliminate health risks, such as extending assistance on the scheduling of COVID-19 vaccines and boosters to employees, adopting a hybrid work arrangement, providing shuttle service, weekly COVID-19 antigen testing, adequate supply of protective equipment, providing sanitizers and posting infographic materials in common areas of the office, plants and staff houses, and extending health maintenance organizations (HMO) coverage and a care package to employees who are confirmed COVID-19-positive.

## MATERIAL CONTRACTS

### Omnibus Loan and Security Agreement (OLSA)

On November 29, 2021, the SCPC, SMPC, and another affiliate, collectively as Borrowers, entered into an Omnibus Loan and Security Agreement (OLSA) with a local bank. The loan has seven-year term and up to an aggregate amount of P2 billion or its U.S. Dollar equivalent. The proceeds of the loan will be used to finance the purchase by the Borrowers of the box and printing plants of Dole located in Davao and General Santos City, the parcels of land where the plants are situated, and all machineries and equipment used in the plant operations.

The loan drawdown will enable the Borrowers to purchase the subject properties and to operate the Dole box plant property in Davao, among others.

The loan has floating interest rate based on the prevailing market rate at each repricing date, with a one-time option to fix. The loan is secured by (i) a first ranking mortgage lien over SMPC's lots in Panabo, Davao, and the box and printing plants in Davao and General Santos City which were acquired using the loan proceeds; (ii) security interest over SMPC's receivables arising from its Supply and Purchase Agreement with Dole, and rental receivables of an affiliate; and continuing suretyship by the major shareholders of the Parent Company.

In December 2021, the SCPC initially availed of the loan amounting to $2,588,000 equivalent to P130.401 million for the purchase of land (Note 11). On January 24, 2022, the SCPC availed the second and final drawdown of the loan amounting to $9,087,396. As at November 29, 2022, the loan has been fully drawn by the SCPC and an affiliate. SMPC has no loan drawdown as of December 31, 2023.

In 2022, SCPC's outstanding loans payable were converted to Philippine peso.

### Supply and Purchase Agreement

In January 2022, a Supply and Purchase Agreement (also referred as Long Term Supply Agreement or LTSA) was entered into by SMPC and Dole for the supply of boxes, packaging materials, including parts thereof such as cartons, dividers, pods, lids, joints, walls, slots, panels, labels and other printed materials, made of paper, kraft, corrugated boxes and other paper related products. SMPC shall render and perform services of manufacturing, processing, coding, packing and handling certain products subject to the standards or specification set by Dole. The purchase of packaging materials by Dole may be suspended in case the products do not meet the agreed acceptability level or standards agreed upon by the parties.

With a minimum purchase commitment from Dole which shall be reviewed every two (2) years, the LTSA has a term of nine years and six months beginning from August 24, 2022 until February 23, 2032, and later extended to February 23, 2033. Should there be adjustments in the minimum purchase commitment after the review, Dole shall be liable to pay for any and all actual costs and duly-documented expenses incurred for the implementation of such adjustments.

SMPC shall keep safety stock for raw materials to ensure that there is no disruption in supplies, and shall use best efforts to notify Dole of any risk of any shortage of any materials. In the event of any shortage due to fortuitous event, SMPC shall allocate its available supply for the production of Dole's packaging needs.

In the event any of the following grounds for default occurs:

a. Any material and serious breach, default, contravention, or non-compliance of any terms of the agreement;
b. A material breach of any representation or warranty;
c. A material violation by SMPC of Dole's code of conduct or applicable policies
d. Any material and un-remediable violation of law or regulation that materially and adversely affects the ability of a party to comply with its obligations under the agreement or otherwise renders the agreement illegal or invalid;
e. The suspension in the purchase by Dole of the products from SMPC due to supply of products that do not conform with Dole's standards after 3 consecutive written notices of rejection, and the same remain unremedied after the agreed period;
f. Dole fails to pay any invoice within the agreed period;
g. Dole fails to meet the minimum purchase commitment;
h. SMPC fails or refuses to properly dispose of non-confirming products, raw materials, consumables, works-in-progress and the like that bear Dole's trademarks, including without prejudice to any action for infringement or unlawful competition by Dole against SMPC;
i. DoleI is constrained to resort to any remedies in case of SMPC's shortfall in the delivery of at least 95% of the ordered quantities or non-confirming products more than 3 times in any calendar month, and there is, in Dole's opinion, a high probability that SMPC shall continuously fail to meet the agreed quality standards.

the defaulting party shall be liable to pay the non-defaulting party liquidated damages. In case SMPC is the defaulting party, it shall also be liable for all costs incurred by Dole related to the disruption of supply of the packaging materials. In case Dole is the defaulting party, Dole shall also pay the unrecovered costs of run and maintain capital expenditure, which amount shall be agreed upon by the parties within 30 days from termination of the agreement. Dole shall also have the right of first refusal to purchase the unused raw materials in SMPI's inventory as of date of the termination.

Under the Agreement, Dole may also pre-terminate, without cause or in the event the parties are unable to agree on minimum purchase commitment, by giving written notice at least 24 months prior to the effective date of termination. Dole shall also be liable to pay liquidated damages in the event of such pre-termination.

The same amount of liquidated damages shall be imposed in case of pre-termination of the agreement by Dole. Under the agreement, Dole may pre-terminate by giving written notice at least 24 months prior to the effective date of termination or should no agreement be concluded on the volume after discussions in good faith by the parties.

The Agreement likewise imposes a penalty on the defaulting party in the event any of the following occurs:

a. The other party becoming bankrupt or insolvent, or has admitted in writing of its inability to pay its debts generally as they become due, or shall commit any act of bankruptcy or insolvency, has filed any petition or action for relief (including suspension of payments) under any bankruptcy, insolvency or moratorium law or any other law for the relief of said debts;
b. Any involuntary petition shall be filed under bankruptcy or insolvency law against the other party, or a receiver or trustee shall be appointed to take possession of the assets of the other party, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within 30 days form the date of the filing or appointment;

c. Any act, deed or judicial or administrative proceedings in the nature of expropriation, confiscation, nationalization, intervention, acquisition, seizure, sequestration or condemnation of the properties or assets of the other party or any substantial portion thereof shall be undertaken or instituted by any governmental authority, and such act, deed or proceedings shall continue undismissed or unstayed period of more than 30 days; and
d. Without Dole's prior written consent, a change in control shall occur in SMPC (i.e. change in the legal and beneficial ownership of at least 51% of the outstanding shares of SMPC).

**Tolling Agreement**

On June 5, 2024, Laysun Services Co., Limited (LSCL) and Steniel Mindanao Packaging Corporation (SMPC) signed a contract for the manufacture and supply of corrugated fiberboard boxes for LSCL's fresh fruit business. The contract, covering the period from January 22, 2024 to December 31, 2024 and subject to renewal upon mutual agreement by the parties, entails a total volume of 30,910,908 boxes. SMPC is responsible for ensuring a one-week supply of knock-down boxes, prompt delivery according to the agreed schedule, providing quality assurance support, and issuing weekly delivery summaries. Any factory defects must be replaced within 15 days from receipt and validation of complaints. SMPC must also ensure an uninterrupted supply of boxes. The risk of loss transfers to LSCL upon receipt of the boxes. The contract allows for pre-termination if SMPC fails to address any concerns within 30 days of receiving notice.

**Lease Agreements**

The Company and the STN Subsidiaries leases space for its operations:

| Date | Lessee | Lease Term | Location | Use |
|---|---|---|---|---|
| November 4, 2024 | SMPC | November 4, 2024 to November 3, 2025 | National Highway, Casinglot, Tagoloan, Misamis Oriental | Warehouse |
| February 21, 2024<br><br>September 1, 2020 | SMPC | January 1, 2026 to December 31, 2030<br><br>January 1, 2020 to December 31, 2025 | National Highway, Bunawan District, Davao City | Manufacturing plant |
| November 21, 2023 | SMPC | October 21, 2023 to October 20, 2025 | Km 15, after Panacan Sub-station, Panacan, Davao City | Office and laboratory space |
| August 15, 2023 | SMPC | January 1, 2024 to December 31, 2026 | Alejal, Carmen, Davao Del Norte | Manufacturing plant |
| October 27, 2020 | SMPC | January 1, 2021 to December 31, 2028 | BTY Compound, National Highway, General Santos City | Storage of boxes, papers and its accessories |
| May 23, 2018 | SMPC | February 1, 2018 to December 31, 2028 | BTY Compound, National Highway, General Santos City | Manufacturing and storage of corrugated carton boxes |

On January 29, 2023, SMPC entered into a lease agreement with SCPC for the use of certain corrugators and converting equipment located at Alejal, Carmen, Davao Del Norte. The lease is for a period a one (1) year and will expire on December 31, 2023, which was extended until December 31, 2024 pursuant to an agreement executed by the parties on January 31, 2024. The lease may be further extended or renewed for another year, subject to the terms to be agreed upon by the parties. On the same day, SMPC and SCPC executed a Memorandum of Agreement whereby SMPC agreed that all costs pertaining to employees and utilities directly related to the operation of the box plant shall be for the account of SMPC. The said agreement shall remain in full force unless revoked by the parties.

**Management and Operations Agreement**

On January 30, 2024, the Company and SCPC entered into a Management and Operations Agreement whereby the Company shall manage the affairs of SCPC and provide administrative and support services, which shall include corporate and business management, planning and budgeting, finance and treasury functions, accounting functions, financial reporting and regulatory filing and reporting, risk management, government and regulatory affairs and administrative/office services and leasing. The agreement shall be effective from January 1, 2024 until December 31, 2024, and may be renewed subject to the terms to be agreed upon by the parties.

## REGULATORY COMPLIANCE

The Company has obtained, or is in the process of obtaining, all material permits, licenses and/or certificates of compliance from the relevant and appropriate local government units and regulatory agencies in relation to their continued business, as confirmed by [●] in his opinion dated [●].

### Material Permits/Licenses

Detailed below are all the major permits and licenses necessary for the Company and its subsidiaries to operate its business, the failure to possess any of which would have a material adverse effect on its business and operations. The Company believes that it has all the applicable and material permits and licenses necessary to operate its business as currently conducted and such permits and licenses are valid, subsisting, or pending renewal.

***Steniel Manufacturing Corporation***

| Permits/ License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| Certificate of Incorporation | Securities and Exchange Commission | September 13, 1963 | N/A | 23736 |
| Certificate of Registration | Bureau of Internal Revenue | December 23, 1998 | N/A | 1RC0000401288 |
| Integrated LGU Permit (Barangay Business Clearance, Sanitary Permit and Business Permit) | City of General Trias | January 24, 2025 | December 31, 2025 | 02144 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | November 15, 2024 | November 15, 2025 | R4A-114993 |

***Steniel Mindanao Packaging Corporation***

| Permits/ License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| Certificate of Incorporation | Securities and Exchange Commission | June 30, 1995 | N/A | AS95006250 |
| *Bunawan, Davao City* | | | | |
| Certificate of Registration | Bureau of Internal Revenue | November 10, 1998 | N/A | 2RC0000743692 |
| Business Permit | City of Davao | February 5, 2024 | December 31, 2024 (Renewal is in progress – January 2025) | B-00283-3 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | September 5, 2024 | December 5, 2024 (Renewal is in progress; for final inspection) | RXI306387 |
| Certificate of Annual Electrical Inspection/ Operation | Office of the Building Official | April 25, 2024 | April 4, 2025 | 92-03486-24 |
| Certificate of Operation: Steam Boiler 1 | Office of the Building Official | April 29, 2024 | May 22, 2025 | 24040052 |

| Permits/ License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| Certificate of Operation: Steam Boiler 2 | Office of the Building Official | April 29, 2024 | May 22, 2025 | 24040053 |
| Certificate of Operation: Internal Combustion Engine | Office of the Building Official | April 29, 2024 | May 22, 2025 | 24040961 |
| Certificate of Operation: Machinery | Office of the Building Official | April 29, 2024 | May 22, 2025 | 24040962 |
| Certificate of Operation: Airconditioning/ Refrigeration | Office of the Building Official | April 29, 2024 | May 22, 2025 | 24040963 |
| Certificate of Operation: Internal Combustion Engine | Office of the Building Official | April 29, 2024 | May 22, 2025 | 23040776 |
| Environmental Compliance Certificate | Department of Environment and Natural Resources | Released on July 14, 1999 | N/A | ECC-XI-99-073-3410 |
| Hazardous Waste Generator Registration Certificate Amendment | Department of Environment and Natural Resources | March 14, 2024 | N/A | OL-GR-R11-24-003542 |
| Permit to Operate (Air Pollution Source and Control Installations) | Department of Environment and Natural Resources | December 13, 2024 | December 13, 2029 | PTO-OL-R11-2024-11003-R |
| Wastewater Discharge Permit | Department of Environment and Natural Resources | January 9, 2025 | January 9, 2030 | DR-R11-25-00331 |
| Certificate of Accreditation of Pollution Control Officer | Department of Environment and Natural Resources | December 1, 2022 | December 1, 2025 | COA No. 2022-RXI-1761 |
| Certificate of Accreditation as Importer | Bureau of Customs | July 31, 2024 | July 31, 2025 | IM0004651634 |
| Certificate of Registration | Department of Labor and Employment | May 22, 2024 | N/A | RXI-2405-1020-6421 |
| *Carmen, Davao Del Norte* | | | | |
| Certificate of Registration | Bureau of Internal Revenue | February 16, 2022 | N/A | 112RC20220000000730 |
| Business Permit | Municipality of Carmen | January 21, 2025 | December 31, 2025 | BP-2025-1102303000-0756 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | December 20, 2024 | December 20, 2025 | RXI461660 |
| *General Santos City* | | | | |
| Certificate of Registration | Bureau of Internal Revenue | November 21, 2003 | N/A | 2RC0000905705 |
| Business Permit | General Santos City | January 18, 2025 | December 31, 2025 | 05890-0 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | August 5, 2024 | August 2, 2025 | 12-0212063 |
| Certificate of Electrical Inspection | Department of Labor and Employment | February 29, 2024 | February 19, 2025 | EEDL No. XII-01-2023 |

| Permits/ License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| Hazardous Waste Generator Registration Certificate Amendment | Department of Environment and Natural Resources | N/A | N/A | OL-GR-R12-63-025200 |
| Certificate of Accreditation of Pollution Control Officer | Department of Environment and Natural Resources | April 11, 2022 | April 11, 2025 | COA No. 2022-R12-0193 |
| Certificate of Accreditation as Importer | Bureau of Customs | August 20, 2024 | August 20, 2025 | IM0009990917 |

***Steniel Cavite Packaging Corporation***

| Permits/License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| Certificate of Incorporation | Securities and Exchange Commission | November 9, 1993 | N/A | AS093-008725 |
| *General Trias, Cavite* | | | | |
| Certificate of Registration | Bureau of Internal Revenue | January 1, 1996 | N/A | 002-930-548-000 |
| Integrated LGU Permit (Barangay Business Clearance, Sanitary Permit and Business Permit) | City of General Trias | January 24, 2025 | December 31, 2025 | 02143 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | November 20, 2024 | November 20, 2025 | R4A1150369 |
| *Carmen, Davao Del Norte* | | | | |
| Certificate of Registration | Bureau of Internal Revenue | March 1, 2022 | N/A | 112RC20220000001089 |
| Business Permit | Municipality of Carmen | January 22, 2025 | December 31, 2025 | BP-2025-1102303000-0813 |
| Fire Safety Inspection Certificate | Bureau of Fire Protection | November 28, 2024 | November 28, 2025 | 451539 |
| Hazardous Waste Generator Registration Certificate Amendment | Department of Environment and Natural Resources | December 12, 2023 | N/A | OL-GR-R11-23-018589 |
| Permit to Operate Air Pollution Source and Control Installations | Department of Environment and Natural Resources | October 12, 2024 | October 12, 2029 | PTO-OL-R11-2024-09220-R |
| Permit to Operate Air Pollution Source and Control Installations | Department of Environment and Natural Resources | June 13, 2024 | June 13, 2029 | PTO-OL-R11-2024-03505 |
| Wastewater Discharge Permit (Corrugated Box Manufacturing Plant) | Department of Environment and Natural Resources | October 12, 2024 | October 12, 2029 | DP-R11-24-10207 |
| Wastewater Discharge Permit (Cooling Operation) | Department of Environment and Natural Resources | November 8, 2024 | November 8, 2029 | DP-R11-24-11123 |
| Wastewater Discharge Permit (Domestic Wastewater) | Department of Environment and Natural Resources | September 7, 2022 | September 7, 2024 | 2022-WDP-I-1123-1471(B) |

| Permits/License Issued | Issuing Agency | Date Issued | Date of Expiry | Permit / License No. |
|---|---|---|---|---|
| | | | (Renewal is in progress) | |
| Environmental Compliance Certificate | Department of Environment and Natural Resources | May 9, 2017 | N/A | ECC-XI-98-007 |
| Certificate of Accreditation of Pollution Control Officer | Department of Environment and Natural Resources | August 9, 2023 | August 9, 2026 | COA No. 2023-RXI-9039 |
| Permit to Operate Pressure Vessel (Vertical / Air Receiver SN#04-06) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PVDL No. XI-80-2004 |
| Permit to Operate Pressure Vessel (Vertical / Air Receiver SN#98-002) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PVDL No. XI-91-1998 |
| Permit to Operate Pressure Vessel (Vertical / Air Receiver SN#98-003) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PVDL No. XI-92-1998 |
| Permit to Operate Pressure Vessel (Vertical / Air Receiver SN#98-004) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PVDL No. XI-93-1998 |
| Permit to Operate Pressure Vessel (Vertical / Air Receiver SN#76SA271) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PVDL No. XI-94-1998 |
| Permit to Operate Steam Boiler Horizontal Fire Tube | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | DL No. XI-80-2004 |
| Power Piping Line Operation Permit | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PPLDL No. XI-05-2004 |
| Power Piping Line Operation Permit | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PPLDL No. XI-06-2004 |
| Power Piping Line Operation Permit | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PPLDL No. XI-07-2004 |
| Power Piping Line Operation Permit | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | PPLDL No. XI-08-2004 |
| Permit to Operate Internal Combustion Engine (Detroit Allison) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | ICE No. XI-05-2004 |
| Permit to Operate Internal Combustion Engine (Caterpillar) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | ICE No. XI-06-2004 |
| Permit to Operate Internal Combustion Engine (Cummins) | Department of Labor and Employment | July 26, 2024 | June 13, 2025 | ICE No. XI-07-2004 |
| Certificate of Electrical Inspection | Department of Labor and Employment | Not indicated | August 9, 2025 | EEDL No. XI-07-2019 |
| Water Permit | National Water Resources Board | With pending application for assignment to SCPC | | 025555 |

The Company is not aware of any pending legislation or governmental regulation that is expected to materially affect its business. The costs for the material permits (i.e. Incorporation process, Business Permits, Licenses to Sell) as well as the cost for compliance with environmental laws (i.e. obtaining an

Environmental Compliance Certificate) only includes the requisite processing and filing fees amounting to Php 28 million.

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# BOARD OF DIRECTORS AND OFFICERS

The Company is ultimately managed and supervised by its Board of Directors. The Company's executive officers provide the Company's Board of Directors the appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review and decision for short term and long-term plan of action. Pursuant to the Company's Amended Articles of Incorporation and Manual on Corporate Governance, the Board shall consist of seven (7) members of which three (3) are independent directors.

## BOARD OF DIRECTORS & PRINCIPAL OFFICERS OF THE COMPANY

The Board is responsible for the direction and control of the business affairs and management of the Company, and the preservation of its assets and properties. Each Board member shall hold office for one (1) year or until their successors are elected and qualified. A director who was elected to fill any vacancy holds office only for the unexpired term of his/her predecessor.

The members of the Board were elected during the Company's annual shareholders' meeting on July 5, 2024, and will hold office until their successors have been duly elected and qualified. As of the date hereof, the composition of the Board is as follows:

| Name | Age | Nationality | Position |
|---|---|---|---|
| Nixon Y. Lim | 54 | Filipino | Chairman, President, CEO |
| Mark O. Vergara | 58 | Filipino | Director |
| Eliza C. Macuray | 66 | Filipino | Director, Treasurer, Chief Finance Officer, Chief Audit Executive |
| Esteban C. Ku | 58 | Filipino | Director |
| Rhea M. Alarcon | 52 | Filipino | Independent Director |
| Arnold San Gabriel | 58 | Filipino | Independent Director |
| Jose Luis G. Santillan | 54 | Filipino | Independent Director |
| Janice L. Co | 41 | Filipino | Corporate Secretary |
| Gino Paulo O. Uy | 39 | Filipino | Compliance Officer |
| Maribel O. Severino | 66 | Filipino | Investor Relations Officer |

The following is a brief write-up of the business experience of the Board of Directors and Principal Officers of the Company:

***Nixon Y. Lim, Chairman, President and CEO***

Mr. Lim is the President of Green Siam Resources Corporation, Greenkraft Corporation, Golden Bales Corporation and Greenkraft Corporation. Mr. Lim has worked extensively in the packaging business, particularly in the field of sales, marketing, manufacturing and finance. Mr. Lim is also a director of Crown Equities, Inc., a publicly listed company. He holds a degree in BS Physics from the De La Salle University, Manila, having graduated in 1992.

***Mark O. Vergara, Director***

Mr. Vergara is a senior partner of the firm Martinez Vergara & Gonzalez Sociedad. He received his Juris Doctor degree from the Ateneo de Manila Law School in 1992, and his Bachelor of Science in Legal Management degree from the Ateneo de Manila University in 1988. He was admitted to the Philippine Bar in 1993. Mr. Vergara is currently a Director of MVG Securities, Inc., Antilia Property Holdings, Inc., Nikipak Philippines Incorporated, MDM Property Corporation, Korner Market Phils. Inc., and ExlService Philippines, Inc. He is the Treasurer of Puhunan, Inc., MNMI Holdings, Inc., Tanguile Holdings, Inc., and Prime Genesis Central Capital, Inc. Mr. Vergara serves as Corporate Secretary of several companies, including GLG Crown Holdings Corporation, Crown Equities, Inc. Organisational Support Services, Inc., Citifinancial Holdings Corporation, Pacific Harbor Investments Holdings Philippines, Inc., MV Holdings Inc. and Green Siam Resources Corporation.

***Eliza C. Macuray, Director, Treasurer, Chief Finance Officer, Chief Audit Executive***

Ms. Macuray received her Bachelor of Science in Commerce, major in Accounting, from Arellano University. Prior to her joining STN, her previous work experience was with United Pulp and Paper Co., Inc. for more than 2 decades, where she gained her experience in the paper business, particularly in finance with focus on tax matters. She also served as Accountant to Orange Performance Techniques Inc. She is currently the Comptroller of Container Corporation of the Philippines.

***Esteban C. Ku, Director***

Mr. Ku holds a degree in Bachelor of Science, Major in Chemical Engineering from the University of San Carlos in Cebu City, where he graduated in 1988. From 1989 to 1992, he was a production supervisor for International Pharmaceutical, Inc. in Xiamen, China. He has since focused on the packaging business, having gained extensive experience in plant operations, sales and marketing and finance. Mr. Ku is currently the Managing Director of Corbox Corporation and Pakmaster Packaging Co.

***Rhea M. Alarcon, Independent Director***

Ms. Alarcon is a Partner at Design to Make a Difference, Inc. (Plus63 Design Co.) and a Managing Partner at Gem Sign Company. Ms. Alarcon was formerly a Partner and Managing Director of Ideals Creatives, Inc. from 2006 to 2011. She also acted as Deputy Executive Director of Children's Hour Philippines, Inc. from 2002 to 2007, and the Executive Director of Culinary Education Foundation from 2001 to 2002. Ms. Alarcon was Supervisor and Department Head – Community Relations and Internal Affairs at Globe Telecom, Inc. from 1995 to 2000. Ms. Alarcon received her Bachelor of Science, Major in Hotel and Restaurant Administration, from the University of the Philippines. She also completed units in Masters of Community Development program from the same university.

***Jose Luis G. Santillan, Independent Director***

Mr. Santillan has extensive experience as a financial advisor for debt restructuring, feasibility studies, and fund raising for various industries in the Philippines. He currently acts as a financial consultant to a farm-to-table social enterprise and a circular economy company. Mr. Santillan is currently an Adjunct Faculty at the Asian Institute Management and a Senior Lecturer at the University of the Philippines, Diliman in the areas of Finance and Economics. From 2018 to 2020, he was the Director of Finance and the Risk and Compliance Officer of Dusit Hospitality Education Philippines Inc./Dusit Thani Philippines.

Mr. Santillan received his Bachelor of Science in Economics from the University of the Philippines in 1991. He also received Financial Modeling and Valuation Analyst (FMVA) Certifications from the Corporate Finance Institute and a Post Graduate Certificate in Leadership from the Asian Institute of Management. He recently graduated with an Executive Master's in Disaster Risk and Crisis Management (with Distinction) from the Asian Institute of Management. Mr. Santillan is also a Certified Risk Analyst from the Global Academy of Finance and Management.

***Arnold San Gabriel, Independent Director***

Mr. San Gabriel is nominated as an Independent Director. He is an expert in financial modeling for complex projects and has extensive experience in due diligence and structuring, analyzing key business/transaction issues. He is currently a Director and the Treasurer of Olongapo Maintenance Services, Inc., and oversees the financial management activities of the company. He is also a Director at LT Dausons Industries Inc. From 2014 to 2023, he acted as the Chief Risk Officer and Country Credit Risk Manager of Citibank. N.A.

Mr. San Gabriel holds a degree in Bachelor of Science, Management – Honors Program from Ateneo de Manila University, where he graduated in 1988. He obtained his Master's degree in Business Administration from Cornell University in 1994.

***Janice L. Co, Corporate Secretary***

Ms. Co is a partner at Martinez Vergara & Gonzalez Sociedad from 2021 up to the present. She earned her bachelor's degree in political science from the Ateneo de Manila University and has a Juris Doctor degree from the Ateneo de Manila University School of Law. Ms. Co serves as Corporate Secretary or Assistant Corporate Secretary to many companies, including Basic Energy Corporation.

***Gino Paulo O. Uy, Compliance Officer***

Mr. Uy has extensive experience in assisting publicly-listed companies in their day-to-day corporate, legal and regulatory compliances and requirements. Aside from being a corporate services practitioner, he also handles inbound immigration requirements of individual and corporate clients. He has assisted corporate clients in transaction agreements for various capital market issuances such as long-term negotiable certificates of deposit, medium-term note and green bonds. He has been part of due diligence teams for listing applications and mergers & acquisitions, and have acted as counsel to both issuers and underwriters, as well as to sellers and acquirers in these transactions. He holds a Bachelor's Degree in Psychology from the University of the Philippines Diliman and a Juris Doctor from the UP College of Law.

***Maribel O. Severino, Investor Relations Officer***

Ms. Maribel Severino holds a Bachelor of Science degree in Business Management from Ateneo De Manila University. She is an experienced professional with credentials in Philippine Equities, Sales & Marketing, Investment Banking, Compliance, and Logistics. She has worked with PCCI Securities, Angping Securities, Nomura Securities (Phils), Nihao Mineral Resources Int'l, DHL Worldwide Express (Phils), Philippine National Bank, and Citytrust Banking Corporation.

## FAMILY RELATIONSHIPS

There are no family relationships between directors and executive officers of the Company.

## INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

Neither the Company nor any of its subsidiaries are involved in, or the subject of, any legal proceedings which, if determined adversely to the Company or the relevant subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its subsidiaries.

The Company and its subsidiaries are not involved in any bankruptcy, receivership or similar proceedings.

## COMPENSATION OF DIRECTORS

Under the By-Laws of STN, each director shall receive a per diem allowance for his attendance at each meeting of the Board in such amount as may be fixed by the Board or by resolution of the stockholders. The directors as such shall receive such compensation for the services as may be approved by stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

Other than payment of reasonable gross per diem for every meeting, there are no standard arrangements pursuant to which the Board of Directors are compensated, or are to be compensated, directly or indirectly, for any services provided as director.

## COMMITTEES OF THE BOARD

To aid in complying with the principles of good governance, the Manual provides that the Board shall create and appoint Board members to each of the committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified.

**Audit Committee**

The Audit Committee, which shall also act as the Board Risk Oversight Committee and Related Party Transactions Committee, is mandated to enhance the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

The Committee has five (5) members, of which at least three (3) are non-executive directors. Majority of them, including the Chairperson, are independent directors. All members have the relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance, and have adequate understanding of the Company's financial management systems and environment. In addition, certain committee members have the necessary background, knowledge, skills and/or experience in risk management and governance.

The Audit Committee's duties and responsibilities include the following:

- Ensure all financial reports are compliant with both the internal financial management handbook and pertinent accounting standards, as well as with regulatory requirements;
- Review and approve the Interim and Annual Financial Statements prior to their submission to the Board;
- Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- Set up and oversee the Internal Audit Department and implementation of the Internal Audit Charter, manage the appointment of the Internal Auditor and independent external auditor (who shall both report directly to the Audit Committee), and coordinate, oversee and review all aspects of internal and external audit activities within the Company;
- Oversee the senior management in establishing and maintaining an adequare, effective and efficient internal control framework;
- Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, and safeguard its integrity through a transparent financial management system;
- Elevate the Company's accounting and auditing policies, processes and methodologies to international standards.

In discharging the functions of the Board Risk Oversight Committee, the committee shall have the following duties:

- Assist the Board in ensuring an effective and integrated risk management process is in place;
- Develop an enterprise risk management plan, oversee its implementation, and periodically evaluate it to ensure its continued relevance, comprehensiveness and effectiveness;
- Advise the Board on its risk appetite levels and risk tolerance limits;
- Review at least annually the risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and from events that have major impact on the Company;
- Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence;
- Report to the Board on the Company's material risk exposures, the attendant actions to mitigate the risks;
- Based on regular risk management reports, conduct periodic discussions on key residual risk exposures and assess how these are being addressed and managed;
- Revisit risk management strategies, identify emerging or changing material exposures, and keep abreast of significant developments that seriously impact the likelihood of harm or loss; and
- Provide oversight over management's activities in managing credit, market, liquidity, operation, legal and other risk exposures of the Company.

In discharging the functions of the Related Party Transaction (RPT) Committee, the committee shall have the following duties:

- Review all material related party transaction of the Company;
- On an ongoing basis, evaluate relations among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored and subsequent changes in relationships with counterparties are captured;
- Evaluate all material RPTs to ensure that these are taken on arms-length basis;
- Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including a periodic review of RPT policies and procedures;
- Report regularly to the Board the status and aggregate exposures to each and all related parties;
- Ensure appropriate disclosures to regulatory and supervisory authorities of the Company's RPT exposures and policies on conflicts of interest or potential conflicts of interest; and
- Ensure that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit process;

The Audit Committee is chaired by Arnold San Gabriel and has Jose Luis G. Santillan, Rhea M. Alarcon, Nixon Y. Lim, Eliza C. Macuray as members.

**Corporate Governance Committee**

The Corporate Governance Committee, which shall act as the Nomination Committee and Compensation and Remuneration Committee, is tasked to assist the Board in ensuring compliance with an proper observance of corporate governance principles and practices. It should be composed of at least three (3) directors, all of whom should be independent directors, including the Chairperson.

The committee's members are Arnold San Gabriel and Rhea M. Alarcon while Jose Luis G. Santillan serves as Chairman.

**Significant employee**

No single person is expected to make a significant contribution to the business since STN considers the collective efforts of all its employees as instrumental to the overall success of its performance.

**Compensation of directors and officers**

The compensation of directors and senior officers is included in the compensation table below (in Philippine Peso).

**Summary compensation table**

| | Year | Salary (in Php) | Bonus | Other Annual Compensation |
|---|---|---|---|---|
| **Top 5 most highly compensated executive officers** | 2025 (est) | 17,000,000.00 | | |
| | 2024 | 12,700,000.00 | - | - |
| | 2023 | 5,730,000.00 | - | - |

Nixon Y. Lim and Eliza C. Macuray are the only compensated officers of the Company. No other directors and executive officers are receiving compensation.

**Standard arrangements and other arrangements**

There are no other arrangements for compensation either by way of payments for committee participation or special assignments other than reasonable per diem. There are also no outstanding warrants or options held by STN's CEO, other officers and/or directors.

**Employment contracts, termination of employment, change-in-control arrangements**

The Company and its Subsidiaries have executed pro-forma employment contracts with their staff and officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Company in the event of a change in control.

**Warrants and options**

There are no outstanding warrants and options held by any of STN's directors and executive officers.

**Security ownership of certain record and beneficial stockholders**

The following are the top 20 stockholders of the Company as of December 31, 2024:

| | Name | Number of Shares | % Ownership |
|---|---|---|---|
| 1 | Golden Bales Corporation | 276,321,061 | 19.48 |
| 2 | Corbox Corporation | 276,321,061 | 19.48 |
| 3 | Roxburgh Investments Limited | 261,910,502 | 18.46 |
| 4 | Greenkraft Corporation | 258,554,339 | 18.22 |
| 5 | PCD Nominee Corporation (Filipino) | 155,492,606 | 10.96 |
| 6 | Ismael T. Cuan | 60,000,000 | 4.23 |
| 7 | Clement O. Chua | 30,671,637 | 2.16 |
| 8 | Rex Chua | 30,671,637 | 2.16 |
| 9 | Valmora Investment & Management Corporation | 10,443,860 | 0.74 |
| 10 | PCD Nominee Corporation (Non-Filipino) | 2,342,703 | 0.17 |
| 11 | Rustico &/Or Lolita Garingan | 2,097,276 | 0.15 |
| 12 | Delfin R. Maceda | 1,980,000 | 0.14 |
| 13 | Calvin C. Chua | 1,828,500 | 0.13 |
| 14 | Sally C. Ong Pac | 1,450,000 | 0.10 |
| 15 | Leonardo T. Siguion-Reyna | 1,151,839 | 0.08 |
| 16 | Christopher Chua | 1,000,000 | 0.07 |
| 17 | Segovia Capital Holdings Devt. Corp. | 940,604 | 0.07 |
| 18 | Estate of Mamerto Endriga | 906,011 | 0.06 |
| 19 | Stanley C. Sy | 750,000 | 0.05 |
| 20 | Manuel T. Carmona | 727,879 | 0.05 |
| | Subtotal | 1,375,561,515 | 96.96 |
| | Others | 43,250,566 | 3.04 |
| | **GRAND TOTAL** | **1,418,812,081** | **100** |

**Security ownership of the company's directors and management**

The following table shows the security ownership of directors and principal officers in the common shares of the Company as of December 31, 2024:

| Title of Class | Name | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | % Ownership |
|---|---|---|---|---|---|
| Common | Nixon Y. Lim | N/A | Filipino | 1 (Direct)<br>457,778,182 (Indirect) | 32.26 |
| Common | Mark O. Vergara | N/A | Filipino | 1 (Direct) | 0.00 |
| Common | Eliza C. Macuray | N/A | Filipino | 1 (Direct) | 0.00 |

| Title of Class | Name | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | % Ownership |
|---|---|---|---|---|---|
| Common | Esteban C. Ku | N/A | Common | 1 (Direct)<br>92,097,809 (Indirect) | 6.49 |
| Common | Rhea M. Alarcon | N/A | Common | 1 (Direct)<br>1,000 (Indirect) | 0.00 |
| Common | Jose Luis G. Santillan | N/A | Common | 1 (Direct)<br>1,000 (Indirect) | 0.00 |
| Common | Arnold San Gabriel | N/A | Common | 1 (Direct)<br>1,000 (Indirect) | 0.00 |

**Voting trust**

The Company is unaware of any person holding more than five (5) per cent of shares under a voting trust or similar agreement.

**Change in control**

In October 2020, the Buyer Group entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares of the Company, equivalent to 64.99% of the total shareholdings. In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company, excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. A total of 11,780,533 common shares of STN were tendered, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale in November 2020 involving the 649,908,308 shares of the Company. As of the date hereof, the transfer of the 649,908,308 common shares in favor of the Buyer Group has been recorded in the books of STN. The transfer effectively reduced the shareholding of SNHBV to 5% of the Company's outstanding capital stock.

In December 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group, Greenkraft and Roxburgh. The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for STN shares issued to the Buyer Group; and (ii) partly subscribed through conversion of loans extended by Greenkraft and Roxburgh into equity.

In October 2023, SNHBV and Greenkraft sold a total of 130,940,604 shares for purposes of complying with the minimum public ownership requirement of at least 20% of the company's outstanding capital stock. As of the date hereof, the Company's major shareholders are comprised of the STN Principals, with an aggregate ownership equivalent to 77.80% of STN's capital stock.

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# DESCRIPTION OF PROPERTY

## Property

### Real Assets - Owned

STN, through STN Subsidiaries, own fourteen (14) parcels of land and improvements where the Carmen Plant and warehouse are located:

| Type | Registered Owner | TCT No/Tax Declaration | Area (in sqm) | Location |
|---|---|---|---|---|
| Land | SCPC | 142-2022008281 | 33,008 | Carmen |
| Land | SMPC | 142-2021005496 | 163 | Panabo City |
| Land | SMPC | 142-2021005497 | 163 | Panabo City |
| Land | SMPC | 142-2021005498 | 163 | Panabo City |
| Land | SMPC | 142-2021005499 | 163 | Panabo City |
| Land | SMPC | 142-2021005500 | 163 | Panabo City |
| Land | SMPC | 142-2021005501 | 163 | Panabo City |
| Land | SMPC | 142-2021005502 | 163 | Panabo City |
| Land | SMPC | 142-2021005503 | 163 | Panabo City |
| Land | SMPC | 142-2021005504 | 163 | Panabo City |
| Land | SMPC | 142-2021005505 | 163 | Panabo City |
| Land | SMPC | 142-2019013505 | 10,000 | Panabo City |
| Land | SMPC | 142-2019013506 | 13,367 | Panabo City |
| Land | SMPC | 142-2019013507 | 21,659 | Panabo City |
| Building (Industrial Bldg) | SCPC | 2020-03-0002-01702 | 338.10 | Carmen |
| Building (Guard House) | SCPC | 2020-03-0002-01703 | 77.45 | Carmen |
| Building (Multipurpose Shed) | SCPC | 2020-03-0002-01704 | 25.40 | Carmen |
| Building (Industrial Bldg) | SCPC | 2020-03-0002-01705 | 11,762.46 | Carmen |
| Building (Industrial Bldg) | SCPC | 2020-03-0002-01706 | 3,864.00 | Carmen |
| Building (Pump House) | SCPC | 2020-03-0002-01707 | 115.70 | Carmen |
| Building (Industrial Bldg) | SCPC | 2020-03-0002-01708 | 110.40 | Carmen |
| Building (Pump House) | SCPC | 2020-03-0002-01709 | 34.00 | Carmen |
| Building (Shed) | SCPC | 2020-03-0002-01710 | 58.20 | Carmen |
| Building (Gas Plant) | SCPC | 2020-03-0002-01711 | 48.00 | Carmen |
| Building (Gas Plant) | SCPC | 2020-03-0002-01712 | 40.20 | Carmen |
| Building (Shed) | SCPC | 2020-03-0002-01713 | 321.86 | Carmen |
| Building (Bodega) | SCPC | 2020-03-0002-01714 | 1,404.00 | Carmen |
| Fence – Reinforced Concrete | SCPC | 2020-03-0002-01715 | n/a | Carmen |
| Building (Shed) | SCPC | 2020-03-0002-01716 | 207.20 | Carmen |
| Building (Shed) | SCPC | 2020-03-0002-01717 | 30.15 | Carmen |
| Building | SMPC | 00-195-0033-10324 | 10,613 | Panabo City |

The lots covered by TCT Nos. 142-2022008281, 142-2019013505, 142-2019013506 and 142-2019013507, and all the buildings and improvements located inside the Carmen Plant are encumbered in favor of BDO pursuant to the Omnibus Loan and Security Agreement dated November 29, 2021.

### Real Assets – Leased

The Company and the STN Subsidiaries leases space for its operations:

| Date | Lessee | Lease Term | Location | Use |
|---|---|---|---|---|
| November 4, 2024 | SMPC | November 4, 2024 to November 3, 2025 | National Highway, Casinglot, Tagoloan, Misamis Oriental | Warehouse |
| February 21, 2024 | SMPC | January 1, 2026 to December 31, 2030 | National Highway, Bunawan District, Davao City | Manufacturing plant |

| Date | Lessee | Lease Term | Location | Use |
|---|---|---|---|---|
| September 1, 2020 | | January 1, 2020 to December 31, 2025 | | |
| November 21, 2023 | SMPC | October 21, 2023 to October 20, 2025 | Km 15, after Panacan Sub-station, Panacan, Davao City | Office and laboratory space |
| August 10, 2023 | SMPC | January 1, 2024 to December 31, 2026 | Alejal, Carmen, Davao Del Norte | Manufacturing plant |
| October 27, 2020 | SMPC | January 1, 2021 to December 31, 2028 | BTY Compound, National Highway, General Santos City | Storage of boxes, papers and its accessories |
| May 23, 2018 | SMPC | February 1, 2018 to December 31, 2028 | BTY Compound, National Highway, General Santos City | Manufacturing and storage of corrugated carton boxes |

On January 9, 2023, SMPC entered into a lease agreement with SCPC for the use of certain corrugators and converting equipment located at Alejal, Carmen, Davao Del Norte. The lease is for a period a one (1) year and will expire on December 31, 2023, which was extended until December 31, 2024 pursuant to an agreement executed by the parties on January 9, 2024. The lease may be further be extended or renewed for another year, subject to the terms to be agreed upon by the parties. On the same day, SMPC and SCPC executed a Memorandum of Agreement whereby SMPC agreed that all costs pertaining to employees and utilities directly related to the operation of the box plant shall be for the account of SMPC. The said agreement shall remain in full force unless revoked by the parties.

**Machineries**

In operating its business, STN and the STN Subsidiaries own machinery and equipment such as stacker roller/pusher conveyor, air compressor, air dryer, rotary shear machine, thin blade slitter and zero scorer machine, folder gluer, boiler, facer machinery, flexo, strapping machine, among others.

None of the above machineries is the subject of any encumbrance or lien.

**<u>Intellectual property</u>**

As of the date of this Prospectus, STN owns the following registered trademarks in the Philippines.

| Registration No. | Mark | Registration Date | Expiry Date |
|---|---|---|---|
| 518498 | | September 30, 2022 | September 30, 2032 |
| 518501 | STENIEL | September 30, 2022 | September 30, 2032 |

**<u>Legal proceedings on properties</u>**

As of date of this Prospectus, the Company and its subsidiaries are not involved in any material litigation, arbitration, or similar proceedings, and is not aware of any such proceedings pending or threatened against it or any its properties, which are or might be material.

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# DESCRIPTION OF THE OFFER SHARES

Information relating to the Common Shares is set forth below. The description is only a summary and is qualified by reference to Philippine law and the Company's Articles of Incorporation ("**Articles**") and By-Laws ("**By-Laws**"), both as amended, copies of which are available at the SEC.

Pursuant to its Articles of Incorporation, as amended on December 29, 2020, the Company has an authorized capital stock of Php 2.0 Billion, divided into 2.0 billion common shares each with a par value of Php 1.00 per share, of which 1,418,812,081 Common Shares are outstanding as of the date of this Prospectus. The Offer Shares are Common Shares of the Company.

The Offered Shares will be offered at [Php 1.80 up to Php 2.00] per Offer Share (the "**Offer Price**"). The determination of the Offer Price is further discussed on the section Determination of the Offer Price of this Prospectus.

Upon completion of the Offer, the Company will have a total of 1,576,460,000 Common Shares issued and outstanding.

**<u>Share Capital</u>**

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its articles of incorporation and by-laws. Subject to the approval of the SEC, a corporation may increase or decrease its authorized capital stock upon approval by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock at a shareholders' meeting duly called for that purpose.

All of STN's shares that are currently issued or authorized to be issued are common shares and have a par value of Php 1.00 per share. If shares are issued at a price above par, whether for cash or otherwise, the amount by which the subscription price exceed the par value is credited to an account designated as paid-in surplus.

A corporation may acquire its own shares for a legitimate corporate purpose, provided that it has sufficient unrestricted retained earnings in its books to pay for the acquisition and it complies with the other conditions for the purchase. Examples of instances in which the corporation is empowered to purchase its own shares are: (i) when the elimination of fractional shares arising out of share dividends is necessary or desirable, (ii) the purchase of shares of dissenting shareholders exercising their appraisal right (as discussed below) and (iii) the collection or compromise of an indebtedness arising out of an unpaid subscription. When a corporation repurchases its own shares, the shares become treasury shares, which may be resold at a price fixed by the board of directors of such corporation.

The Board is authorized to issue shares from treasury from time to time. Treasury shares may be issued to any person, corporation or association, whether or not a shareholder of the Company, including its officers or employees for such consideration in money as the Board may determine.

**<u>Rights Relating to the Common Shares</u>**

**Voting Rights**

Each Common Share entitles the holder to one (1) vote.

At each meeting of the stockholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one (1) vote for each share of stock standing in his name in the books of the Company at the time of the closing of the transfer books for such meeting.

In the election of Directors, each stockholder, in person or by proxy, is entitled to such number of votes as is equivalent to the product of the number of Common Shares owned by him multiplied by the number of Directors to be elected. The stockholder may cumulate his votes in favor of one (1) or more candidates as he may see fit.

A Director may also be removed by the vote of stockholders representing two-thirds ($^2/_3$) of the outstanding voting shares, in accordance with the provisions of Section 27 of the Revised Corporation Code.

Voting rights cannot be exercised with respect to shares declared delinquent or treasury shares, or with respect to shares upon which its appraisal right has been exercised.

**Pre-emptive Rights**

Section 38 of the Revised Corporation Code provides that all stockholders of a stock corporation will enjoy pre-emptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, unless such right is denied by the Articles of Incorporation or an amendment thereto. Under the Company's Articles of Incorporation, pre-emptive rights are denied as to all issuances or dispositions of the Company's Common Shares.

The Company's Amended Articles of Incorporation deny the pre-emptive right to subscribe to any issue or disposition of shares of the Corporation.

**Dividend Rights**

Dividends may be declared from the unrestricted retained earnings of the Company at such time and in such percentage or amount as the Board of Directors may deem proper. No dividend shall be declared that will impair the capital stock of the Company.

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation that have not been allocated for any purpose. A corporation may pay dividends in cash, in property, or by the issuance of shares (stock dividend). Stock dividends may only be declared and paid with the approval of stockholders representing at least two-thirds of the issued and outstanding capital stock of the corporation voting at a stockholders' meeting duly called for the purpose.

The Revised Corporation Code requires, as a general rule, that a corporation with retained earnings in excess of 100.00% of its paid-in capital declare and distribute as dividends the amount of such surplus. Notwithstanding this requirement, a corporation may retain all or any portion of such surplus in the following cases: (a) when justified by definite expansion plans approved by the board of directors of the corporation; (b) when the required consent of any financing institution or creditor to such distribution has not been secured; or (c) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies.

Please see further discussion under the Dividends and Dividend Policy of this Prospectus.

**Appraisal Rights**

The Revised Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

a. An amendment of the Articles of Incorporation that has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence;
b. The sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;
c. A merger or consolidation; and
d. Investment of corporate funds for any purpose other than the primary purpose of the corporation.

In any of these circumstances, the dissenting shareholder may require the Company to purchase its shares at a fair value, which in default of agreement is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the Company, and the third by the two thus chosen. In the event of a dispute, the SEC will determine any question about whether a dissenting shareholder is entitled to this right of appraisal. This remedy will only be available if the Company has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting stockholders.

From the time the shareholder makes a demand for payment until the Company purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

**Access to Corporate Books and Records**

Stockholders have the right to inspect the books and records of the Company, including the minutes of all Board and stockholders' meetings, and records of business transactions of the Company. However, the right of inspection may be denied if the shareholder seeking to examine the corporate records is not acting in good faith or for a legitimate purpose in making the demand for inspection or has improperly used any information secured through any prior examination of the records of such corporation or any other corporation.

**Liquidation Rights**

Each shareholder is entitled to a pro rata share in the assets of the Company available for distribution to the stockholders in the event of dissolution, liquidation and winding up, subject to the superior rights of the creditors of the Company.

**Derivative Rights**

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the Company in a derivative action in circumstances where the Company itself is unable or unwilling to institute necessary proceedings to redress wrongs committed against the Company or to vindicate corporate rights such as, for example, where the directors themselves are the malefactors.

**Disclosure Requirements / Right of Inspection**

Philippine stock corporations are required to file a general information sheet which sets forth data on their board of directors, officers and capital structure, as well as the corporations' annual audited financial statements with the SEC. Aside from the SEC, corporations must also submit their annual financial statements to the BIR. Corporations whose shares are listed on the PSE are also required to file current, quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation, which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year.

**Treasury Shares**

The Company may acquire its own Common Shares, provided that, it has unrestricted retained earnings to pay for the Common Shares to be acquired or purchased and only for a legitimate corporate purpose/s, including, but not limited to: (a) to eliminate fractional shares arising out of stock dividends, (b) to collect or compromise an indebtedness to the Company, arising out of unpaid subscription, in a delinquency sale, and to purchase delinquent shares sold during said sale; and (c) to pay dissenting or withdrawing stockholders entitled to payment for their shares under the provisions of the Revised Corporation Code.

The Common Shares repurchased by the Company shall become treasury shares that may again be disposed of at a reasonable price as may be fixed by the Board of Directors. These treasury shares have neither voting rights nor dividend rights as long as they remain as treasury shares.

As of the date of this Prospectus, the Company does not hold any treasury shares.

**Other Securities**

The Company has not issued any other form of securities other than its Common Shares.

**Stock Transfer Agent**

The Company's stock and transfer book is maintained at the principal office of the Company's stock transfer agent, Stock Transfer Services, Inc.

**Changes in Control**

There are no existing provisions in the amended Articles of Incorporation and amended By-Laws of the Company, which may cause delay, deferment, or in any manner prevent a change in control of the Company.

**Board of Directors**

Unless otherwise provided by law, the Company's corporate powers are exercised, business conducted, and all of its property are controlled and held, by the Board of Directors. The Company has 7 directors, 3 of whom are independent directors. They shall be elected by the Company's shareholders who are entitled to vote at the annual meeting and shall hold office for one (1) year until their successors are elected and qualified in accordance with the Company's by-laws.

Any vacancy by reason of death, resignation, or removal of a director prior to the expiration of the director's term, may be filled by the vote of at least a majority of the remaining members of the Board, if still constituting a quorum; otherwise, the vacancy must be filled by the shareholders at a regular or at any special meeting of the shareholders called for that purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office and until his successor is duly elected and qualified.

**Shareholders' Meeting**

**Annual or Regular Shareholders' Meetings**

Philippine corporations are required to hold an annual meeting of shareholders. Under the Company's by-laws, the annual shareholders' meeting shall be held every last Tuesday of April of each year in the principal office or the city where the principal office of the Company is located. On July 5, 2024, the shareholders approved the change of the date of the annual meeting to any day on the third week of June of each year.[31]

**Special Shareholders' Meeting**

Special meeting of the shareholders may be called at any time by resolution of: (a) the board of directors, at its own instance, or at the written request of the shareholders representing at least two thirds of the total outstanding stock, or (b) the Chairman, or in his absence, the Vice Chairman of the Board of Directors, or (c) the President.

**Notice of Shareholders' Meeting**

Under SEC Memorandum Circular No. 3, Series of 2020, the corporate secretary shall send the notice of any regular meeting of the shareholders by personal delivery or by mail to each shareholder of record at his last known address at least twenty-one (21) calendar days prior to the date of the meeting. For special meetings of the shareholders, the Company's by-laws provides that the corporate secretary shall send the notice of such special meeting of the shareholders by personal delivery or by mail to each shareholder of record at his last known address or by publication in a newspaper of general circulation two (2) weeks before the date of the meeting. The notice should state the place, date, and hour of the meeting, and the purpose for which the meeting is called. Shareholders may waive their right to a notice of any meeting, expressly or impliedly before or after the meeting.

**Quorum**

[31] The Company is in the process of applying with the SEC for the amendment of its By Laws reflecting the change of the date of annual meeting.

A majority of the issued capital stock of the Company, either in person or by proxy, shall constitute a quorum, and a majority of the quorum shall decide any question before the meeting except as otherwise provided by law. If there is no quorum for the meeting, the meeting shall be adjourned until the required number of Shares shall be present or represented.

**Voting**

Shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by a duly appointed proxy. Except in cases otherwise provided by law, a majority of the votes cast by the shareholders present in person or by proxy at any meetings is sufficient to approve any resolution.

**Fixing Record Dates**

For purposes of determining the shareholders entitled to notice of, or to vote or be voted at any meeting of the shareholders or any adjournment thereof or to receive payment of any dividends or other distribution or allotment of any rights, or to exercise the rights in respect of any change, conversion or exchange of the capital stock, the Board of Directors may provide that the stock and transfer books be closed for such period as may be deemed advisable previous to such meeting.

Under the rules of the Securities and Exchange Commission, the record date of cash dividend declaration of a listed company should be not less than 10 and not more than 30 days from the date of declaration. For declaration of stock dividends, the record date must not be less than 10 and not more than 30 days from the date of the shareholders' approval. The record date must also be not less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividends. For declaration of stock dividends as part of the increase in authorized capital stock, the record date is fixed by the Securities and Exchange Commission.

Under the Company's By-Laws, the Board of Directors may, by resolution, direct that the stock and transfer books of the Company be closed beginning on a certain date which shall not be less than 30 days prior to the date of any meeting of stockholders, and such date shall be the record date for the determination of stockholders entitled to notice of, or to vote, at any such meeting.

**Proxies**

Shareholders may vote in person or by proxy. Proxies must be filed with the Corporate Secretary or the Company's transfer agent at least seven (7) days before the day of the meeting. Proxies previously filed may be revoked by the shareholders either in an instrument in writing duly presented to the Corporate Secretary or the Company's transfer agent at least three (3) days before the day of the meeting or by their personal presence at the meeting. Validation of proxies should be done at least five (5) days before the day of the meeting by the Corporate Secretary or by a special committee of inspectors composed of the Corporate Secretary and a representative of the transfer agent. The decision of the Corporate Secretary or the special committee of inspectors, as the case may be, on the validity of the proxies shall be final and binding until and unless set aside by a court of competent jurisdiction.

Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Corporate Secretary.

**Transfer of Common Shares**

All transfer of shares on the PSE shall be effected by means of a book-entry system. Under this system of trading and settlement, a registered shareholder transfers legal title over the shares to such nominee but retains beneficial ownership over the shares. A shareholder transfers legal title by surrendering the stock certificate representing his shares to participants of the PDTC system (i.e., brokers and custodian banks) that, in turn, lodge the same with the PCD Nominee. A shareholder may request his shares to be uplifted from the PDTC, in which case a certificate of stock is issued to the shareholder and the shares are registered in the shareholder's name. See The Philippine Stock Market section of this prospectus.

Philippine law does not require transfers of shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange, and documentary stamp tax. See Philippine Taxation section of this Prospectus. All transfers of shares on the PSE must be effected through a licensed stockbroker in the Philippines.

**Share Register**

The Company's share register is maintained at the principal office of its share transfer agent, Stock Transfer Services, Inc.

**Issues of Shares**

Subject to otherwise applicable limitations, the Company may issue additional shares to any person for consideration that the Board deems fair, provided that such consideration shall not be less than the par value of the issued shares. Share certificates may only be issued to a subscriber upon full payment of the subscription together with interest and expenses (in case of delinquent shares). Under PSE rules, only fully paid-up shares may be listed on the PSE.

**Share Certificates**

Certificates representing the Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional shares. Shareholders may request Stock Transfer Service, Inc. to split their certificates. Shares may also be lodged and maintained under the book-entry system of the PDTC. See the Philippine Stock Market section of this Prospectus.

**Mandatory Tender Offer**

It is mandatory for any person or group of persons acting in concert to make a tender offer to all the shareholders of the target corporation before the intended acquisition of:

a. At least 35% of the outstanding voting shares of such outstanding voting shares that are sufficient to gain control of the board in a public company, in one or more transactions within a period of 12 months; such intention should be disclosed and the tender offer shall be made for the percentage sough to all holders of such securities within the said period; or
b. At least 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company directly from one or more stockholders; the tender offer shall be made for all outstanding voting shares; or
c. Less than 35% of such equity that will result in ownership of over 51% of the total outstanding equity securities in a public company.

The term public company refers to: (i) a corporation with a class of securities listed on an exchange, such as the PSE; or (ii) a corporation with assets of at least Php 50 million and having 200 or more shareholders with at least 100 shares each.

When the securities tendered pursuant to such an offer exceed the number of shares that the acquiring person or group of persons is willing to acquire, the securities shall be purchased from each tendering shareholder on a pro rata basis according to the number of securities tendered by each security holder. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed to both the selling shareholders with whom the acquirer may have been in private negotiations with and the minority shareholders.

In a mandatory tender offer, the acquirer must offer the highest price paid by him for such shares during the past six months. Where the offer involves payment by transfer or allotment of securities, such securities must be valued on an equitable basis. However, if any acquisitions of even less than 35% would result in ownership of 51% of the total outstanding equity, the acquirer shall make a tender offer for all the outstanding equity securities to all remaining shareholders of the said corporation at a price supported by a fairness opinion provided by an independent financial adviser or equivalent third party. The acquirer in such tender offer shall accept any and all securities thus tendered.

No mandatory tender offer is required in:

a. Purchases of shares from unissued capital shares unless it will result in a 50% or more ownership of shares by the purchaser;
b. Purchases from an increase in the authorized capital shares of the target company;
c. Purchases in connection with a foreclosure proceeding involving a pledge or security where the acquisition is made by a debtor or creditor;
d. Purchases in connection with a privatization undertaken by the government of the Philippines;
e. Purchases in connection with corporate rehabilitation under court supervision;
f. Purchases through an open market at the prevailing market price; or
g. Purchases resulting from a merger or consolidation.

**Fundamental Matters**

The Revised Corporation Code considers certain matters as significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. These acts, which require board of directors' approval and the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation (except for the amendment of by-laws and approval of management contracts in general, which require approval of shareholders representing a majority of the corporation's outstanding capital stock), include:

a. Amendment of the articles of incorporation;
b. An increase or decrease of capital stock and incurring, creating or increasing bonded indebtedness;
c. Delegation to the board of directors of the power to amend or repeal or to adopt new by-laws;
d. Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the corporation's assets;
e. Merger or consolidation;
f. Investment of corporate funds in any other corporation or for a purpose other than the primary purpose for which the corporation was organized;
g. Dissolution of the corporation;
h. Denial of pre-emptive rights to shares to be issued in good faith in exchange for property needed for corporate purposes or in payment of a previously contracted debt;
i. Declaration or issuance of stock dividends;
j. Ratification of a contract between the corporation and a director or officer where the vote of such director or officer was necessary for approval;
k. Execution of a management contract where (a) a majority of directors of the managing corporation constitutes the majority of the board of the managed company or (b) shareholders of both the managing and managed corporations represent the same interest and own or control more than one third of the outstanding capital stock entitled to vote;
l. Removal of directors; and
m. Ratification of contracts with corporations in which a director is also a member of the board, where the interest of the director is substantial in one corporation and nominal in the other.

**Other Features of the Offer Shares**

The Offer Shares are neither convertible nor subject to redemption. All of the Company's issued shares are fully paid and non-assessable and are free and clear of all liens, claims, and encumbrances. All documentary stamp taxes due on the issuance of all issued shares have been fully paid.

**Accounting and Auditing Requirement**

Philippine corporations are required to file copies of their annual consolidated financial statements with the Philippine SEC. Companies listed on the PSE must also file their quarterly consolidated financial statements with the Philippine SEC and the PSE.

Shareholders are entitled to be furnished with the most recent financial statements of a Philippine corporation, which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the Company for the preceding year.

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# REGULATORY AND ENVIRONMENTAL MATTERS

**General Business Regulatory Framework**

**Revised Corporation Code**

Republic Act No. 11232 or the Revised Corporation Code was signed into law on 20 February 2019, and became effective on 08 March 2019. The salient features, among others, of the Revised Corporation Code are as follows:

a. Corporations are granted perpetual existence, unless the Articles of Incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Commission that it elects to retain its specific corporate term under its current Articles of Incorporation;
b. An eligible natural person, trust, or estate may create a One Person Corporation ("**OPC**"), which is a corporation composed of a single stockholder. No minimum authorized capital stock is required for an OPC, unless provided for under special laws;
c. Material contracts between a corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same;
d. The right of stockholders to vote in the election of directors or trustees, or in stockholders' meetings, may now be done through remote communication or in absentia if authorized by the corporation's by-laws. However, as to corporations vested with public interest, voting through remote communication or in absentia are deemed allowed, even if not expressly stated in the by-laws. The stockholders who participate through such means are deemed present for purposes of quorum. When attendance, participation, and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option; and
e. In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring, creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

**Republic Act No. 10173 (Data Privacy Act of 2012)**

RA No. 10173, otherwise known as the Data Privacy Act of 2012 or DPA, was signed into law on August 15, 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System or ICT, which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the DPA and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth.

It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The DPA seeks to protect the confidentiality of personal information, which is defined as any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual. The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on personal information controllers and personal information processors. It also provides for penal and monetary sanctions for violations of its provisions.

**Republic Act No. 9160 (Anti-Money Laundering Act)**

Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act or AMLA, is a special law which aims to investigate and criminalize money laundering and other financial crimes, protects financial institutions and other covered entities under the act, and ensures that the Philippines will not be used as a money laundering site for the proceeds of any unlawful activity.

In so doing, the AMLA serves the following functions: (1) creates the financial intelligence unit known as the “Anti-Money Laundering Council” or (“**AMLC**”); (2) imposes to Covered Entities specific obligations such as customer identification, record keeping, and reporting of covered and suspicious transactions; (3) relaxes strict bank deposit secrecy laws; and (4) provides for remedies, such as bank inquiry and freeze orders, and *ex parte* petitions, seizure, forfeiture, and recovery of dirty money or property.

Money Laundering is defined under the AMLA as a crime whereby the proceeds of an unlawful activity are transacted, thereby making them appear to have originated from legitimate sources. It is committed by any person:

a. Knowingly transacting or attempting to transact any money/property which represents, involves or relates to the proceeds of an unlawful activity;
b. Knowingly performing or failing to perform an act in relation to any money/property involving the proceeds of any unlawful activity as a result of which he facilitated the offense of money laundering; and
c. Knowingly failing to disclose and file with the AMLC any report required to be disclosed and filed.

In addition, the AMLA also considers the failure to keep records, malicious reporting, and breach of confidentiality as punishable acts.

The AMLA requires all covered entities, the exhaustive list is provided in the law, to register with the AMLC. Obligations of reporting or covered institutions include Customer Identification, Recordkeeping, and the Reporting of Covered and Suspicious Transactions.

Covered transactions are defined as single transactions in cash or other equivalent monetary instrument involving a total amount in excess of Five Hundred Thousand (₱500,000) Pesos within one (1) banking day. Suspicious Transactions, on the other hand, are defined as transactions with covered institutions, regardless of the amounts involved, where any of the following circumstances exist:

- There is no underlying legal/trade obligation, purpose or economic justification or the client is not properly identified;
- The amount involved is not commensurate with the business or financial capacity of the client;
- The transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- There is a deviation from the client’s profile/past transactions;
- The transaction is related to an unlawful activity/offense under the AMLA; and
- Transactions similar or analogous to the above

In 2018, the AMLC Regulatory Issuance (ARI) A, B, C, No. 2 was issued, on the Guidelines on Digitization of Customer Records. Under said issuance, covered persons are required to digitize all customer records that are within the 5-year retention period for recordkeeping as provided by the AMLA. It also requires all covered persons to develop a central database where the customer records can be easily uploaded and retrieved, accessible at any time by their compliance officer or any other duly authorized officer.

**Republic Act No. 1161, as amended (Social Security Law)**

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 8282 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, social security coverage is compulsory for all employees under 60 years of age. An employer must deduct and withhold from its compulsorily covered employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations.

**Republic Act No. 9679 (Home Development Mutual Fund Law)**

Under the Home Development Mutual Fund Law of 2009, all employees who are covered by the Social Security Act of 1997 must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide affordable shelter financing to Filipino employees. The employer is likewise mandated to deduct and withhold, pay and remit to the Pag-IBIG Fund the respective contributions of the employees under the prescribed schedule.

**Republic Act No. 7875, as amended (National Health Insurance Act of 1995)**

Under Republic Act No. 7875, employers are likewise required to ensure enrollment of its employees in a National Health Program administered by the Philippine Health Insurance Corporation, a government corporation attached to the Department of Health, tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995, as amended by the Republic Act No. 11223, otherwise known as the Universal Health Care Act. The registration, accurate and timely deductions, and remittance of contributions to the Philippine Health Insurance Corporation is mandatory as long as there is an employer-employee relationship.

**<u>Environmental Laws</u>**

**Philippine Environmental Impact Statement System**

The Philippine Environmental Impact Statement System ("**EISS Law**") established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the Environmental Management Bureau ("**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area, and processes all applications for an Environmental Compliance Certificate ("**ECC**"). An ECC is a government certification that, among others: (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan ("**EMP**") in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking. On the other hand, a Certificate of Non-Coverage ("**CNC**") is a government certification that, based on the submitted project description, the project is not covered by the EIS System and is not required to secure an ECC.

A requisite for the issuance of an ECC for an environmentally critical project, an Environmental Impact Statement ("**EIS**") must be submitted to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("**IEE**") to the proper DENR regional office. In case of an environmentally critical project located in an environmentally critical area, an EIS is likewise required. The EIS refers to both the documentary requirements and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the documentary requirements and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, it still contains all relevant information regarding the projects' environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System results in the issuance of an ECC. The ECC is a government certification certifying that the proposed project or undertaking will not cause a significant negative environmental impact; that the applicant has complied with all the requirements of the EIS System and has committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase. The ECC also provides for other terms and conditions, any violation of which would result in a fine or the cancellation of the ECC.

Applicants that prepare an EIS are required to establish an Environmental Guarantee Fund ("**EGF**") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF answers for damages caused by such a project as well as any rehabilitation and restoration measures. Applicants that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("**EMF**") when an ECC is eventually issued. The EMF will support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations. Aside from EIS and IEE, engineering, geological, and geo-hazard assessments are also required for ECC applications covering subdivisions, housing, and other development and infrastructure projects

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

**The Clean Water Act**

Republic Act No. 9275, otherwise known as the Clean Water Act and its Implementing Rules and Regulations (the "**Clean Water Act and its IRR**"), provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act and its IRR require owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The discharge permit specifies the quantity and quality of effluents that the holder of the permit is allowed to discharge as well as the validity of the permit. The discharge permit is valid for a maximum period of five years from the date of its issuance, renewable for five-year periods thereafter. The Department may, however, renew the discharge permit and keep it valid for a longer period if the applicant has adopted waste minimization and waste treatment technologies, consistent with incentives currently provided, and has been paying the permit fees on time. The DENR, together with other Government agencies and the different local Government units, is tasked with implementing the Clean Water Act and its IRR, and with identifying existing sources of water pollutants, as well as strictly monitoring pollution sources which are not in compliance with the effluent standards provided in the law.

### The Water Code

Presidential Decree No. 1067, or The Water Code of the Philippines (the "Water Code") requires a water permit for the appropriation or use of natural bodies of water. Use or appropriation of water includes, among others, the utilization of water in factories, industrial plants and mines, including the use of water as an ingredient of a finished product. Appropriation of water without a water permit, when one is required, is subject to the imposition of the corresponding penalties imposed by the Water Code and its implementing rules and regulations.

### The Clean Air Act

Pursuant to Republic Act No. 8749 or Clean Air Act and its IRR, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. Said permit shall cover emission limitations for the regulated air pollutants to help maintain and attain the ambient air quality standards. A permit duly issued shall be valid for the period specified therein but not beyond one year from the date of issuance unless sooner suspended or revoked. It may be renewed by filing an application for renewal at least thirty days before the expiration date and upon payment of the required fees and compliance with requirements. The issuance of the permit does not, however, relieve the permittee from complying with the requirements of the Clean Air Act and its IRR.

### Other Environmental Laws

Other regulatory environmental laws and regulations applicable ot the business operations of the Company include the following:

- Republic Act No. 6969 or the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990, which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substances and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry as well as transit into the Philippines, or the keeping or storage and disposal of hazardous wastes which include by-products, side-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Under this law, before any new chemical substance or mixture can be manufactured, processed or imported for the first time, the manufacturer, processor, or importer shall first submit information pertaining to the: (i) name of chemical substance or mixture; (ii) its chemical identity and molecular structure; (iii) proposed categories of use; (iv) estimate of the amount to be manufactured, processed or imported; (v) processing and disposal thereof; and (vi) any test date related to health and environmental effects which the manufacturer, processor or importer has. The said law is implemented by the DENR.
- Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000, which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.

## Property Registration

The Philippines has adopted a system of land registration which conclusively confirms land ownership binding on all persons, including the Government. Once registered, title to registered land can no longer be challenged except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication and service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court who has jurisdiction over the land confirms title to the same.

Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals or the Supreme Court. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents such as homestead, sales and free patents, must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes with the Registry of Deeds.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Registry of Deeds. Title to the subdivision must be delivered to the purchaser upon full payment of the purchase price.

On 16 July 2021, Republic Act No. 11573, otherwise known as “An Act Improving the Confirmation Process for Imperfect Land Titles, amending for the purpose Commonwealth Act No. 141, as amended, otherwise known as ‘The Public Land Act’ and Presidential Decree No. 1529, as amended, otherwise known as the ‘Property Registration Decree” was signed into law. It aims to address the difficulties and complications in needing to prove ownership of land since 1945 and the strict standards set by the Supreme Court in the judicial confirmation of imperfect titles by simplifying the procedure and requirements for granting of land deeds. This is to help rural farmers and individuals who are unable to afford legal representation to secure land title.

Republic Act No. 11573 allows individuals who (i) own tract or tracts of land, not exceeding 12 hectares; (ii) prior to the filing of an application for agricultural free patent, have continuously occupied and cultivated the tract or tracts of alienable and disposable agricultural public lands, either personally or through predecessors-in-interest, for at least 20 years; and (iii) have paid the real estate tax therein, to have a free patent issued for such tract or tracts of land not exceeding 12 hectares.

The law also directs all applications for agricultural free patents to be filed before the DENR’s Community Environment and Natural Resources Office (CENRO), or the Provincial Environment and Natural Resources Office (PENRO) for provinces without CENRO. Further, it requires the CENRO or PENRO to act on applications for agricultural free patents within a period of 120 days from filing.

Republic Act No. 11573 allows individuals who have been in an open, continuous, exclusive and notorious possession and occupation of alienable and disposable agricultural land of public domain for a period of 20 years, or who have acquired ownership of private lands or abandoned riverbed by right of accession or accretion may file their petition for perfection of their claims with Regional Trial Courts. It also provides that to prove that the tract of land subject of the application for agricultural free patent is alienable and disposable, a duly signed certification by the duly designated DENR Geodetic Engineer is sufficient. This certification must be imprinted in the approved survey plan submitted by the applicant to the land registration court.

Lastly, Republic Act No. 11573 repealed the provision under Republic Act No. 9176 providing for the fixed term for filing of application of agricultural free patent, which was only up to December 31, 2020. In effect, with the passage of this new law, qualified beneficiaries may apply for agricultural free patent at any time.

**Nationality Restrictions**

Article XII, Section 7 of the 1987 Philippine Constitution provides that private lands shall only be transferred or conveyed to individuals, corporations, or associations qualified to acquire or hold lands of public domain. Only Filipino citizens and corporations whose outstanding capital stock is 60% Filipino-owned are qualified to own land in the Philippines. While the law prescribes restrictions on land ownership, there is nothing under the law which prohibits foreigners to own buildings and other permanent structures.

In addition, Republic Act No. 7042, otherwise known as the Foreign Investments Act of 1991, and the Ninth Regular Foreign Investment Negative List, provide for certain activities which are nationalized or partly- nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly- nationalized and thus, landholding companies may only have a maximum of 40.0% foreign equity.

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# RELATED PARTY TRANSACTIONS

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged. Transactions between STN and related parties are conducted at estimated market rates and on an arm's length basis and in accordance with the Company's Related Party Transactions Policy.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates and joint ventures; (c) individuals owning, directly or indirectly, an interest in the voting power of STN that gives them significant influence over STN and close members of the family of any such individual; and, (d) STN's funded retirement plan.

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

All material related party transactions and related party transactions involving directors and/or officers shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions and related party transactions involving directors and/or officers. In case that a majority of the independent directors' vote is not secured, the material related party transactions and related party transactions involving directors and/or officers may be ratified by the vote of the stockholders representing at least two-third of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 1% of STN's total consolidated assets, the same BOD approval would be required for the transaction/s that meet and exceeds the materiality threshold covering the same related party. Under SEC Memorandum Circular No. 10, Series of 2019, Rules on Material Related Party Transactions for Publicly listed Companies, the minimum threshold to be considered as a material related party transaction is 10% of the total assets based on the latest audited consolidated financial statements.

Directors with personal interest in a certain related party transaction should abstain from participating in the discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

The summary of STN's transactions with related parties is as follows:

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024**

**RELATED PARTY TRANSACTIONS**
**Amounts in thousands of pesos**
**For the year ended September 30, 2024**

| Transactions | SMC | SMPC | SCPC | Other related parties |
|---|---|---|---|---|
| Lease of machineries | P- | (P90,000) | P90,000 | P- |
| Employee costs, utilities, and power directly related to the operation of the box plant | - | (55,580) | 55,580 | - |
| Management fee | 9,375 | (9,375) | - | - |
| Management fee | 18,750 | - | (18,750) | - |
| Other revenue generated from the leased facility | - | - | 25,147 | (25,147) |
| Sale of machineries | | (145,000) | 145,000 | |
| Sales | - | 33,409 | - | (33,409) |

| | | | | |
|---|---|---|---|---|
| Purchases | - | (4,907) | - | 4,907 |
| Advances from customers | - | 332,621 | - | (332,621) |
| Lease and warehousing costs | - | (5,759) | - | 5,759 |
| **Total** | **P28,125** | **P55,409** | **P296,977** | **(P380,511)** |

**FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2023**

| Transactions | SMC | SMPC | SCPC | Other related parties |
|---|---|---|---|---|
| Lease of machineries | P- | (P120,000) | P120,000 | P- |
| Employee costs, utilities, and power directly related to the operation of the box plant | - | (83,992) | 83,992 | - |
| Management fee | 25,000 | | (25,000) | - |
| Management fee | 12,500 | (12,500) | - | - |
| Proceeds from sale of investment | (7,270) | - | 7,270 | - |
| Gain on acquisition (loss on disposal) of investment | 65,435 | - | (65,435) | - |
| Dacion en pago | (190,000) | - | - | 190,000 |
| Other revenue generated from the leased facility | - | - | 29,801 | (29,801) |
| Sales | - | 45,107 | - | (45,107) |
| Purchases | - | (31,416) | - | 31,416 |
| Advances from customers | - | 164,541 | - | (164,541) |
| Lease and warehousing costs | - | (5,322) | - | 5,322 |
| Key management personnel compensation | - | (1,596) | (3,380) | 4,976 |
| **Total** | **(P94,336)** | **(P45,177)** | **P147,248** | **(P7,735)** |

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# THE PHILIPPINE STOCK MARKET

**Brief History**

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulatory, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated on July 24, 1992 as a non-stock corporation by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, BGC, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor. On June 24, 2022, the PSE closed its trading floor at the PSE Tower, Bonifacio Global City to embrace digital trading. Traders are to conduct activities off-site instead of their trading booths, embracing remote setup. While the PSE shifted to floorless trading, bell ringing ceremonies for new listings would still be conducted in the PSE headquarters.

In June 1998, the SEC granted the PSE Self-Regulatory Organization status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a Trading Participant Certificate was immediately conferred on each member-broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry. As of March 6, 2020, the PSE has an authorized capital stock of ₱120 million, of which ₱85.2 million are issued and ₱81.6 million are outstanding. As of October 31, 2022, the PSE has ₱85.5 million issued shares of which ₱81.6 million are outstanding and fully paid while ₱387,683.00 are outstanding and subscribed.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. In 2013, the PSE issued Rules on Exchange Traded Funds ("**ETF**") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices. With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology (EDGe), a new disclosure system co-developed with the Korea Exchange, went live. The EDGe system provided a dedicated portal for listed company disclosures and also offered a free-to download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ's X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, PSE received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the SEC to introduce short selling in the equities market.

The PSE issued Memorandum LA No. 2011-0032 dated September 1, 2011, regarding the Supplemental Listing and Disclosure Requirements for Petroleum and Renewable Energy (RE) Companies (PRE Rules). In addition to the general listing requirements, Petroleum and RE Companies are required to submit the documentary requirements set forth in the Checklist of Documentary Requirements for Petroleum and RE Companies in case of an IPO or Listing by way of Introduction. Moreover, existing listed companies and Petroleum and RE Companies that will apply for initial listing with the PSE shall comply with the supplemental disclosure requires specified in the Supplemental Disclosure Guidelines and Requirements for Petroleum and Renewable Energy Companies.

The PSE Rules provide that an applicant Petroleum or RE company must, at a minimum, demonstrate to the PSE that it is an operator or a co-venturer of a valid and subsisting Service/Operating Contract duly approved and awarded by the DOE. Moreover, an applicant Petroleum or RE company should prove that it has the right to participate actively in the exploration for and/or extraction of natural resources through adequate control over the assets, or through adequate rights which give it sufficient influence in decisions over the exploration for and/or extraction of natural resources.

On March 22, 2018, the PSE completed a stock rights offering of 11,500,000 Common Shares which were offered at the price of ₱252.00 per share, or a total of ₱2,898,000,000. The proceeds of the stock rights offering will be used to fund the acquisition of PDS and capital expenditure requirements of the PSE. As of the date of this Prospectus, the PSE has an authorized capital stock of ₱120 million, of which 85,477,846 shares are issued. Out of this total, 81,963,894 shares are outstanding, and 3,901,635 are treasury shares.

The table below sets out movements in the composite index from 2005 to 2023, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

| Year | Composite Index at Closing | Number of Listed Companies | Aggregate Market Capitalization (Php) | Combined Value of Turnover (Php) |
|---|---|---|---|---|
| 2005 | 2,096.0 | 237 | 5.984.4 | 383.5 |
| 2006 | 2,982.5 | 240 | 7,172.8 | 572.6 |
| 2007 | 3,621.6 | 244 | 7,978.5 | 1,338.3 |
| 2008 | 1,872.9 | 246 | 4,0692 | 763.9 |
| 2009 | 3,052.7 | 248 | 6,029.1 | 994.2 |
| 2010 | 4,201.1 | 253 | 8,866.1 | 1,207.4 |
| 2011 | 4,372.0 | 253 | 8,697.0 | 1,422.6 |
| 2012 | 5,812.7 | 254 | 10,930.1 | 1,771.7 |
| 2013 | 5,889.8 | 257 | 11,931.3 | 2,546.2 |
| 2014 | 7,230.6 | 263 | 14,251.7 | 2,130.1 |
| 2015 | 6,952.1 | 265 | 13,465.2 | 2,151.4 |
| 2016 | 7,629.7 | 268 | 14,438.8 | 1,929.5 |
| 2017 | 8,558.4 | 267 | 17,538.1 | 1,958.4 |
| 2018 | 7,466.0 | 267 | 16,146.7 | 1,736.8 |
| 2019 | 7,815.3 | 271 | 16,710.0 | 1,770.0 |
| 2020 | 7,139.7 | 274 | 15,888.9 | 1,770.9 |
| 2021 | 7,122.6 | 280 | 18,081.1 | 2,233.1 |
| 2022 | 6,566.4 | 286 | 16,558.5 | 1,788.7 |
| 2023 | 6,450.0 | 283 | 16,740.6 | 1,475.7 |

Source: PSE Annual Reports

## Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading day). Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:00 pm and ends at 3:00 pm for the afternoon session, with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. For a fifteen (15) minute period after the market's run-off period, or from 3:00 to 3:15 pm, Volume Weighted Average Price (VWAP) Trading may be done, using the price computed by the Exchange, and through authorized salesmen or traders of a Trading Participant.

Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for the Issuer's Shares is 10 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 30% above and 50% below the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.
- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

## Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three (3) business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

## Settlement

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for: (1) synchronizing the settlement of funds and the transfer of securities through delivery versus payment, as well as clearing and settlement of transactions of clearing members, who are also PSE Trading Participants; (2) guaranteeing the settlement of trades in the event of a PSE Trading Participant's default through the implementation of its "Fails Management System" and administration of the Clearing and Trade Guaranty Fund, and; (3) performance of risk management and monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a two-day rolling settlement environment, which means that settlement of trades takes place two days after transaction date (T+2). The deadline for settlement of trades is 12:00 noon of T+2. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the eight existing Settlement Banks of SCCP which are Banco De Oro Unibank, Inc. ("**BDO Unibank**"), Rizal Commercial Banking Corporation ("**RCBC**"), Metropolitan Bank & Trust Company ("**Metrobank**"), Deutsche Bank ("**DB**"), Union Bank of the Philippines ("**Unionbank**"), The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**"), Maybank Philippines, Inc. ("**Maybank**") and Asia United Bank Corporation ("**AUB**"). Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system in May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets buy and sell transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

**Scripless Trading**

In 1995, the PDTC, was organized to establish a central depository in the Philippines and introduce scripless bookentry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, RCBC, Metrobank, DB, Unionbank, HSBC, Maybank and AUB.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. **Immobilization** is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares to PCD Nominee will be recorded in the Issuer's registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g., brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must execute the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP and into the PDTC system.

Once it is determined on the settlement date (T+2) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedure of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are generally on the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current de facto custodianship role.

**Amended Rule on Lodgment of Securities**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009- 0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III, Part A of the PSE's Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company. Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof as follows:
- For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee Corp. but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.
- On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010, through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

**Issuance Of Stock Certificates for Certificated Shares**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for withdrawal from the book-entry system and return to the conventional paper based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follo the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

**Amended Rule on Minimum Public Ownership**

On December 1, 2017, the SEC issued SEC Memorandum Circular No. 13, Series of 2017 (SEC MC 13-2017) on the rules and regulations on minimum public ownership (MPO) on initial public offerings. SEC MC 13-2017, companies filing a registration statement pursuant to Sections 8 and 12 of the SRC and with intention to list their shares for trading in an exchange shall apply for registration with a public float of at least 20% of the companies' issued and outstanding shares. It shall, at all times, maintain an MPO of at least 20%. If the MPO of the company falls below 20% at any time after registration, such company shall bring the public float to at least 20% within a maximum period of 12 months from the date of such fall. The determination of whether shareholdings are considered public or non-public is based on: (a) the amount of shareholdings and its significance to the total outstanding shares; (b) the purpose of investment; and (c) the extent of involvement in the management of the company shares held by the following are generally considered as held by the public: (a) individuals whose shares are not of significant size and which are non-strategic in nature; (b) PSE trading participants (such as brokers) whose shareholdings are non-strategic in nature; (c) investment funds and mutual funds; (d) pension funds which hold shares in companies other than the employing company or its affiliates; (e) PCD Nominee provided that none of the beneficial owners of the shares has significant holdings (i.e., shareholdings by an owner of 10% or more are excluded and considered non-public); and (f) Social Security funds.

If an investment in a listed company is meant to partake of sizable shares for the purpose of gaining substantial influence on how the company is being managed, then the shareholdings of such investor are considered nonpublic. Ownership of 10% or more of the total issued and outstanding shares of a listed company is considered significant holding and therefore non-public.

Listed companies which become non-compliant with the minimum public ownership requirement will be suspended from trading for a period of not more than six months and will be automatically delisted if it remains non-compliant with the said requirement after the lapse of the suspension period.

Notwithstanding the quarterly public ownership report requirement of the PSE, listed companies listed on the PSE are required to (a) establish and implement an internal policy and procedure to monitor its MPO levels on a continuous basis; and (b) immediately report to the SEC within the next business day if its MPO level falls below 20%. Listed companies are also required to submit to the SEC a time-bound business plan describing the steps that the company will take to bring the public float to at least 20% within a maximum period of 12 months from, within ten days from knowledge that its MPO has become deficient. Listed companies are also required to submit to the SEC a public ownership report and progress report on any such submitted business plan within 15 days after end of each month until such time that its MPO reaches the required level.

The MPO requirement also forms part of the requirement for the registration of securities. Non-compliance with these MPO requirements subject publicly listed companies to administrative sanctions, including suspension and revocation of their registration with the SEC.

On August 3, 2020, the PSE issued Guidelines on MPO Requirement for Initial and Backdoor Listings, effective immediately. Under the guidelines, companies applying for initial listing through an IPO are required to have a minimum public offer size of 20% to 33% of its outstanding capital stock, as follows:

| Market Capitalization | Minimum Public Offer |
|---|---|
| Not exceeding Php500 million | 33% or Php 50 million, whichever is higher |
| Over Php 500 million to Php1 billion | 25% or Php 100 million, whichever is higher |
| Over Php 1 billion | 20% or Php 250 million, whichever is higher |

A company listing through an IPO is required to maintain at least 20% public ownership level at all times, whether the listing is initial or through backdoor listing. For companies doing a backdoor listing, the 20% MPO requirement shall be reckoned from the actual issuance or transfer (as may be applicable) of the securities which triggered the application of the Backdoor Listing Rules or from actual transfer of the business in cases where the Backdoor Listing Rules are triggered by a substantial change in business

**<u>Amended Listing Rules for Real Estate Investment Trusts ("REITs")</u>**

On February 7, 2020, the PSE issued Memorandum CN No. 2020-0005 on the Amended Listing Rules for Real Estate Investment Trusts ("**Amended REIT Listing Rules**"). Under the Amended REIT Listing Rules, a REIT must meet the following criteria in addition to the criteria in the PSE Listing Rules:

- A REIT must be a stock corporation established in accordance with the Revised Corporation Code of the Philippines and the rules and regulations promulgated by the Commission principally for the purpose of owning income-generating real estate assets.
- A REIT must have a dividend policy of distributing annually at least ninety percent (90%) of its distributable income as dividends to its shareholders in accordance with the REIT Act of 2009 and its IRR.
- A REIT must be a public company upon and after listing, and to be considered as such, a REIT must have at least one thousand (1,000) public shareholders each owning at least fifty (50) shares of any class of shares who in the aggregate own at least one-third (1/3) of the outstanding capital stock.
- A REIT must have a minimum paid-up capital of ₱300 million.
- At least seventy-five percent (75%) of the deposited property of the REIT must be invested in, or consist of, income-generating real estate; provided, that a REIT shall not invest in real estate located outside the Philippines which exceeds more than forty percent (40%) of its deposited property and, provided further, that the REIT shall at all times secure a special authority from the securities and exchange commission in making such investment outside the Philippines.
- At least 1/3 of the board of directors of a REIT must be independent directors, which in no case shall be less than two (2).
- A REIT must appoint a qualified fund manager and property manager in accordance with the REIT Act of 2009 and its IRR, as may be amended.
- Directors or officers of the REIT, fund manager, property manager, distributor and other REIT participants are subjected to the fit and proper rule under the REIT Act of 2009 and its IRR.
- A newly formed REIT which invokes the frack record or operating history of its income generating real estate assets shall submit audited financial statements and any other supporting documents that reflect the back record or operating history of the REIT's income-generating real estate assets for the applicable period.
- The Articles of Incorporation and By-Laws of the REIT shall provide that all of the shares of stock of the REIT shall be issued in the form of uncertificated securities and an investor may not require the REIT to issue a certificate in respect of any share recorded in their name.

- Pursuant to Section 8 of these Rules, the REIT shall submit a firm undertaking on the part of its sponsors/promoters which transferred income-generating real estate to the REIT to reinvest in real estate or infrastructure projects in the Philippines any monies realized by such sponsors/promoters from (a) the subsequent sale of REIT shares or other securities issued in exchange of income generating real estate transferred by such sponsors/promoters to the REIT; or (b) the sale of any income-generating real estate to the REIT. The firm undertaking shall also state the firm commitment to regularly report to the REIT the status of implementation of the Reinvestment Plan.
- The submission of a Reinvestment Plan by the sponsors/ promoters which transferred income-generating real estate to the REIT.
- The REIT and its sponsors/promoters which transferred income-generating real estate to the REIT shall be parties to a listing agreement with the Exchange which contains, among others, their undertaking to comply with these Rules.

The Amended REIT Listing Rules also set out the special and regular reports required for REITs and the guidelines to observed in the reinvestment by the sponsors/promoters which transferred income generating real estate to the REIT.

On June 13, 2022, PSE issued Memorandum MEA No. 2022-0001 amending the Amended REIT Listing Rules relating to Lock-Up Exemption for REIT Sponsors and the Shareholder Equity Requirement. The pertinent amendments under MEA No. 2022-0001 are as follows:

- To enable a secondary offering of REIT shares during the IPO, even in cases where the actual issuance of REIT shares to the sponsors/promoters in exchange for their contributed properties at a price lower than the IPO price may take place within the one hundred eighty (180)-day period before the IPO due to pending regulatory approvals, such shares issued to sponsors/promoters shall be exempted from the application of the Lock-Up Rule, provided that:
    a. The shares could not have been issued earlier than the 180-day period prior to the IPO because of pending regulatory requirements;
    b. The sponsors/promoters sell the exempted shares during the IPO, provided that, such sponsors/promoters may only sell shares during IPO to the extent of forty-nine percent (49%) of the REIT's outstanding capital stock; ands
    c. REIT shares which are covered by this exemption but are not sold during the IPO shall lose their lock-up exemption and be subject to the 365-day lock-up counted from full payment.
- The maximum limit of REIT IPO Lock-Up Exemption is 94% of the outstanding capital stock of the REIT.
- The ₱500 Million minimum stockholder's equity required under the existing PSE Listing and Disclosure
- Rules be present at the time of filing, instead of the fiscal year immediately preceding the filing of the listing application.
- A newly-formed REIT is not prohibited from undertaking a secondary offering of shares during Initial Public Offering.

**<u>Mandatory Lock-Up Rule</u>**

**Main Board**

Under the PSE Consolidated Listing and Disclosure Rules, all existing shareholders of a company listing under the Main Board holding at least ten percent (10% of the issued and outstanding Shares as of the Listing Date cannot sell, assign or in any manner dispose of their Shares either for (i) one (1) year after the Listing Date if the company listing is exempted from the track record and operating history requirement for listing, or (ii) six (6) months if the company listing meets the track record requirement.

In addition, if there is any issuance or transfer of shares (e.g. private placements, asset for shares swap or a similar transaction) or of instruments which leads to an issuance or transfer of shares done and fully-paid for six (6) months prior to the start of the Offering Period at an issue or transfer price less than the price per Offer Share shall be subject to a lock-up period of at least one (1) year from the date of full payment.

**SME Board**

The PSE rules require an applicant company applying for listing in the SME Board to cause its existing non-public stockholders and their related parties not to sell, assign or in any manner dispose of their shares for a period of 365 days after the listing of the shares.
Non-public stockholders refer to the Company's (i) principal stockholders (i.e., the owner of 10% or more of the issued and outstanding shares); (ii) subsidiaries or affiliates; (iii) directors; (iv) principal officers; and (v) any other person who has substantial influence on how the Company is being managed. Related parties refer to the non-public stockholders' (i) principal stockholders (i.e., the owner of 10% or more of the issued and outstanding shares); (ii) subsidiaries or affiliates; (iii) directors; (iv) principal officers; and (v) members of the immediate family sharing the same household of any of its principal stockholders, directors, or principal officers.

Furthermore, shares that were issued or transferred and fully paid within 180 days prior to the start of the Offer Period with a transaction price lower than that of the Offer Price shall likewise be locked up for at least 365 days from the listing of said shares.

**Implementation of Lock-up**

To implement this lock-up requirement, the PSE requires the applicant company to lodge the shares with the PCD through a PCD Participant or any other entity authorized by the SEC for the electronic lock-up of the lock-up shares or enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution that is acceptable to the PSE for the physical lock-up of the shares. The escrow agreement shall contain, among others, the following provisions: (a) the listing company shall ensure that the lock-up shares are electronically registered with the PCD through a PCD participant or any other entity authorized by the Commission for the electronic lock-up of the subject shares for safekeeping; (b) the escrow agent shall notify and seek prior approval from the PSE before the subject shares are removed from its custody; (c) the escrow agent shall immediately inform the PSE of a subsequent event if in its sound judgment, it perceives that there is a potential violation of the agreement; and (d) within seven (7) calendar days after the lapse of the lock-up period stipulated in the escrow agreement, the escrow agent shall make a final report to the PSE on the total number of shares held in escrow and other information required by the PSE.

**Amendments to the Voluntary Delisting Rules**

On December 1, 2020, PSE issued Memorandum Circular No. 2020-0104 ("**C.N. 2020-0104**") on the amendments to the voluntary delisting rules. Under C.N. 2020-0104, the delisting must be approved by: (i) at least two-thirds (2/3) of the entire membership of the Board, including the majority, but not less than two, of all of its independent directors; and (ii) Stockholders owning at least two-thirds (2/3) of the total outstanding and listed shares of the listed company.

Further, the number of votes cast against the delisting proposal should not be more than ten percent (10%) of the total outstanding and listed shares of the listed company.

As regards the tender offer price, the minimum tender offer price shall be the higher of: (i) the highest valuation based on the fairness opinion or valuation report prepared by an independent valuation provider in accordance with SRC Rule 19.2.6; or (ii) the volume weighted average price of the listed security for one year immediately preceding the date of posting of the disclosure of the approval by the Company's Board of Directors of the Company's delisting from the Exchange.

**Revised Rules on Backdoor Listing**

On May 26, 2022, PSE issued Memorandum Circular No. 2022-0024 ("**C.N. No. 2022-0024**"), Revised Rules on Backdoor Listing, effective immediately. Under C.N. No. 2022-0024, backdoor listing is deemed to occur if the following elements are present:

- The listed company, directly or indirectly, acquires the shares or assets of an unlisted company or person or group of persons or vice versa; and
- Such transaction or series of transactions results or will result in:

a. Change in control or de facto control of the listed company; and/or
b. Substantial change in the business of the listed company.

Change in control takes place when the purchaser acquires more than fifty percent (50%) of the voting power of the listed company while de facto control is acquired if the purchaser becomes the single largest substantial shareholder of the listed company after the transaction leading to the backdoor listing. Meanwhile, there is substantial change in business of the listed company if the value of the new business or assets acquired is more than fifty percent (50%) of the total assets of the listed company, based on the audited consolidated financial statements of the listed company as of the end of the fiscal year preceding the backdoor listing or the latest available interim financial statements, as may be applicable.

Some of the notable salient provisions of C.N. No. 2022-0024 are as follows:

- Corporate approvals for primary issuance of shares resulting in backdoor listing are required, as follows:
    a. At least 2/3 of the entire membership of the Board of Directors, including the majority (but not less than two) of its independent directors; and
    b. Stockholders owning at least 2/3 of the total issued and outstanding shares of the listed company.
- Where a transaction results in change of control of the listed company but the new controlling stockholder will not conduct a tender offer on the basis of any of the exemptions provided in SRC Rule 19.3, the new controlling stockholder or the listed company must submit to the Exchange a written confirmation from the SEC that the mandatory tender offer requirement is not applicable. Meanwhile, if the transaction results in substantial change in business of the listed company without the listed company effecting a change in its Registration Statement, the listed company must also submit a written confirmation from the SEC that amendment of its Registration Statement is not required. Pending submission of these confirmations, the trading of the shares of the listed company will remain to be suspended.
- A backdoor-listed company shall conduct a public offering of at least ten percent (10%) of its issued and outstanding shares within one (1) year from closing or completion of the transaction giving rise to backdoor listing. A stock rights offering ("**SRO**") shall not be deemed a public offering for purposes of this rule. Prior to the conduct of the public offering, the listed company shall not conduct any private capital-raising activity (except SRO, Employee Stock Option Plan and stock dividend declaration), unless the same is necessary to comply with the 20% MPO requirement. Secondary offering of shares under trading suspension or lock-up shall not be allowed during the public offering. Non-compliance with the public offering requirement within the prescribed 1-year period shall result in trading suspension of the listed shares.

The lock-up rule pursuant to the transaction shall be six (6) months after the conduct of the public offering. Shares held by stockholders owning at least ten percent (10%) of the total issued and outstanding shares shall be locked up for one (1) year from closing or completion of the transaction giving rise to backdoor listing.

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# PHILIPPINE TAXATION

The following is a general description of certain material Philippine tax aspects of the acquisition, ownership, and disposition of the Common Shares. This discussion is based on laws, regulations, rulings, income tax conventions (tax treaties), administrative practices and judicial decisions in effect at the date of this Prospectus, and is subject to any changes in law occurring after such date. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective investor.

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to an investor, or to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates

This general description does not purport to be a comprehensive description of the Philippine tax aspects of the investments in shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the shares under applicable tax laws of other applicable jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the shares in such other jurisdictions. It does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates or tax incentives under special laws.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL AND NATIONAL TAX LAWS.

As used in this section, the term resident alien refers to an individual whose residence is within the Philippines and who is not a citizen thereof.

A non-resident alien is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a non-resident alien engaged in trade or business in the Philippines; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a non-resident alien not engaged in trade or business in the Philippines.

A resident foreign corporation is a foreign corporation engaged in trade or business within the Philippines; and a non-resident foreign corporation is a non-Philippine corporation not engaged in trade or business within the Philippines.

A non-resident holder means a holder of the Common Shares who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a non-resident foreign corporation; and should an income tax treaty be applicable, whose ownership of the Common Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

**The Tax Reform for Acceleration and Inclusion Act (TRAIN) and Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)**

On January 1, 2018, RA No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**"), took effect. The TRAIN amended various provisions of RA No. 8424 or the National Internal Revenue Code (the "**Tax Code**"), including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor's tax, and documentary stamp tax.

On March 26, 2021, the second package of the Comprehensive Tax Reform program, RA No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act ("**CREATE Law**") was signed into law, further amending provisions of the Tax Code relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The CREATE Law took effect on April 11, 2021.

The objectives of these two laws are as follows:

The Tax Reform for Acceleration and Inclusion (TRAIN):

a. enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable and inclusive economic growth;
b. To provide, as much as possible, an equitable relief to a greater number of taxpayers and their families in order to improve levels of disposable income and increase economic activity; and
c. To ensure that the Government is able to provide for the needs of those under its jurisdiction and care through the provision of better infrastructure, health, education, jobs, and social protection for the people.

The Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

a. Improve the equity and efficiency of the corporate tax system by lowering the rate, widening the tax base, and reducing tax distortions and leakages;
b. Develop a more responsive and globally competitive tax incentives regime that is performance-based, targeted, time-bound, and transparent;
c. Provide support to businesses in their recovery from unforeseen events such as an outbreak of communicable diseases or a global pandemic, and strengthen the nation's capability for similar circumstances in the future; and
d. Create a more equitable tax incentive system that will allow for inclusive growth and generation of jobs and opportunities in all the regions of the country and ensure access and ease in the grant of these incentives especially for applicants in least developed areas.

**Individual Income Tax**

A resident citizen is taxed on income from all sources within and without the Philippines at progressive rates ranging from zero percent (0%) to thirty-five percent (35%) of taxable income (other than certain passive income and capital gains which are subject to final taxes). Taxable income means gross income less allowable deductions. A resident alien, non-resident citizen, or non-resident alien engaged in trade or business in the Philippines is generally subject to an income tax in the same manner and at the same progressive tax rates on taxable income from all sources within the Philippines (other than certain passive income and capital gains which are subject to final taxes).

A non-resident alien not engaged in trade or business in the Philippines is taxed on gross income from Philippine sources such as interest, cash and/or property dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodic or casual gains, profits, and income, and capital gains (other than capital gains from the sale of shares of stock in a domestic corporation and real property) at the rate of Twenty-five percent (25.00%) withheld at source.

A "non-resident citizen" is a citizen of the Philippines who (a) establishes to the satisfaction of the Commissioner of Internal Revenue the fact of his physical presence abroad with a definite intention to reside therein, or (b) leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis, or (c) works and derives income from abroad and whose employment thereat requires him to be physically present abroad most of the time during the taxable year. A citizen of the Philippines who has been previously considered as a non-resident citizen and who arrives in the Philippines at any time during the taxable year to reside permanently in the Philippines shall likewise be treated as a non-resident citizen for the taxable year in which he arrives in the Philippines with respect to his income derived from sources abroad until the date of his arrival in the Philippines.

**Corporate Income Tax**

The Tax Code generally subjects a domestic corporation to a tax of 20% or 25% of its taxable income from all sources within and outside the Philippines except, among others, (i) gross interest income from currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; (ii) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax rate of 15% of such income, (iii) capital gains tax from sales of shares of stock not traded in the stock exchange which are taxed at a rate of 15% on the net capital gain; and (iv) capital gains realized from the sale, exchange or disposition of lands and buildings, which is subject to a final tax of 6%.

Further, domestic corporations considered as Micro, Small, and Medium Enterprises ("**MSME**") (those with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 [excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed]), shall be taxed at 20% on their taxable income. Taxable net income refers to items of income specified under Section 32(A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A resident foreign corporation (except certain types of corporations enumerated in the Tax Code) is subject to a tax of twenty-five percent (25%) of its taxable income from all sources within the Philippines except those items of income that are subject to final withholding tax, such as: (a) gross interest income from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines that are generally taxed at the lower final withholding tax rate of twenty percent (20%) of the gross amount of such income; (b) interest income from a depository bank under the expanded foreign currency deposit system that is subject to a final tax at the rate of 15% of such income; and (c) net capital gains from the sale, exchange or other disposition of shares of stock in a domestic corporation not traded in the stock exchange is subject to tax at the rate of 15%.

Effective June 30, 2023, , a minimum corporate income tax ("**MCIT**") of two percent (1%) of the gross income as of the end of the taxable year is imposed on a domestic corporation and a resident foreign corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary income tax for the taxable year. Any excess of the MCIT over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Further, subject to certain conditions, the MCIT may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, *force majeure* or legitimate business reverses.

**Tax On Dividends**

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of ten percent (10%). Cash and property dividends received from a domestic corporation by domestic corporations or resident foreign corporations are not subject to tax.

Cash and property dividends received from a domestic corporation by non-resident aliens engaged in trade or business in the Philippines are subject to a twenty percent (20%) final withholding tax on the gross amount thereof.

Cash and property dividends received from a domestic corporation by non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporations are subject to a final withholding tax at twenty-five percent (25%) of the gross amount but may be subject to the applicable preferential tax rates ("**Treaty Rates**") under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Depending on whether the treaty rates or the regular tax rates have been applied at the onset of the transaction, either the domestic corporation, acting as withholding agent, shall file a request for confirmation ("**RFC**") (in case the treaty rates were applied), or the income recipient shall file a tax treaty relief application with a request for refund ("**TTRA**") (in case the regular tax rates were applied) with the appropriate office of the Philippine tax authorities.

Cash and property dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to a final withholding tax at the rate of twenty-five percent (25%), which may be reduced to fifteen percent (15%) (under the tax sparing rules) when the country in which the non-resident foreign corporation is domiciled (i) imposes no taxes on foreign–sourced dividends or (ii) allows a ten percent (10%) or greater credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines. A non-resident foreign corporation availing of the tax sparing rate is required to file an application with the BIR for a confirmatory ruling on its entitlement to the tax sparing rate within ninety (90) days from the payment of the dividend.

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

| Some Countries with which the Philippines has Tax Treaties | | | |
|---|---|---|---|
| | Dividends (%) | Stock transaction tax on sale or disposition effected through the PSE (%)[32] | Capital Gains tax due on disposition of shares outside the PSE (%) |
| Austria | 25[33] | 0.6 | May be exempt[34] |
| Canada | 25[35] | 0.6 | May be exempt[12] |
| China | 15[36] | Exempt[37] | May be exempt[12] |
| France | 15[38] | Exempt[39] | May be exempt[12] |
| Germany | 15[40] | Exempt[41] | May be exempt[12] |
| Japan | 15[42] | 0.6 | May be exempt[12] |
| Singapore | 25[43] | 0.6 | May be exempt[12] |
| United Kingdom | 25[44] | [45] | Exempt[(15)] |
| USA | 25[46] | 0.6 | May be exempt12 |

Stock dividends distributed pro-rata to any holder of shares of stock are not subject to Philippine income tax, if the proportional interest of the shareholders after such distribution is essentially the same as was

[32] Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR ruling no. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently, ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through PSE.
[33] 10.00% if the recipient company holds directly at least 10.00% of the voting power of the company paying the dividends.
[34] Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.
[35] 15.00% if recipient company controls at least 10.00% of the voting power of the company paying the dividends.
[36] 10.00% if the recipient company holds directly at least 10.00% of the capital of the company paying the dividends
[37] Exempt under Article 2(b) of the RP-China Tax Treaty
[38] 15.00% if the recipient company holds directly at least 15.00% of the voting shares of the company paying the dividends
[39] Exempt under Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995.
[40]15.00% if the recipient company holds directly at least 15.00% of the voting shares of the company paying the dividends
[41] 1. Exempt under Article 2 (3)(a) of Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013
[42] 5% if the recipient company (excluding a partnership) which is the beneficial owner of the dividends holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) which is the beneficial owner of the dividends holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases.
[43] 10.00% if the recipient company owns directly at least 10.00% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six (6) months immediately preceding the date of payment of the dividends
[44] 15.00% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15.00% of the outstanding shares of the voting stock of the paying company were owned by the recipient company.
[45] Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.
[46] 15.00% if the recipient company is a company which controls directly or indirectly at least 10.00% if the voting power of the company paying the dividends

prior to the distribution. A stock dividend constitutes income if it gives the shareholder an interest different from that which his former stockholdings represented. A stock dividend does not constitute income if the new shares confer no different rights or interest than did the old.

Philippine tax authorities have prescribed certain procedures, through an administrative issuance, for availment of Tax Treaty Rates tax treaty relief. The recipient must first submit to the dividend payor an application for tax relief (BIR Form No. 0901), a Tax Residency Certificate (TRC) duly issued by the foreign tax authority, and the relevant provision of the applicable tax treaty. The dividend payor may rely on the documents submitted by the dividend recipient and apply the treaty rate on dividends. and file a RFC with the BIR-ITAD to confirm the propriety of withholding at the preferential tax treaty rate. If the dividend payor did not apply the treaty rate and withheld taxes at the regular rate, the dividend recipient may file a TTRA with the BIR-ITAD. If the BIR-ITAD determines that the requirements for availment of the preferential tax treaty rate were complied with, the BIR-ITAD will approve the RFC or TTRA and issue a Certificate of Entitlement ("**COE**").

If the Company applies the preferential treaty rate and files an RFC and the BIR eventually determines that the treaty rate is not the applicable rate, the BIR will issue a ruling denying the RFC, and the Company shall be exposed to deficiency tax plus penalties. On the other hand, if the Company applies the regular tax rates, and the income recipient files a TTRA and the BIR eventually determines that the treaty rate is the applicable rate, the BIR will issue a certificate confirming the entitlement to treaty benefits, and the income recipient may apply for a refund of excess withholding tax withholding tax within the two-year period provided in Section 229 of the Tax Code. The claim for refund of the shareholder may also be filed simultaneously with the TTRA. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

In either case, documentary requirements must be submitted to support the tax treaty relief, such as the proof of residence and, if applicable, individual or corporate status. Proof of residence for an individual consists of certification from his embassy, consulate, or other equivalent certifications issued by the proper government authority, or any other official document proving residence.

Taxpayers who were already issued COEs, the tenor of which allows the ruling to be applied to subsequent or future income payments, are no longer required to file a RFC, TTRA, or tax sparing application every time an income of similar nature is paid to the same nonresident as long as the conditions for the continued enjoyment of treaty benefits or tax sparing rule are present. If the COE mentions tax residency as requisite, the Company need only require the nonresident to submit a TRC for such relevant year before making any payment. There is no need to file a new RFC, TTRA, or tax sparing application unless any of the requisites mentioned in the COE is absent.

The Supreme Court clarified in the case of *Deutsche Bank AG Manila Branch v. Commissioner of Internal Revenue* (G.R. No. 188550, promulgated on August 19, 2013) that as the Philippines is bound to honor its treaty obligations, a prior application for a tax treaty relief within the period provided in the BIR's regulation cannot negate any entitlement to the relief. According to the Supreme Court, such tax treaty application or ruling should merely operate to confirm the entitlement of the taxpayer to the relief. Thus, failure to file a tax treaty relief application (TTRA) prior to the occurrence of the transaction will not disqualify a person from availing of the relief under the tax treaty.

On March 31, 2021, the BIR issued Revenue Memorandum Order No. 14-2021 which repealed the provisions of Revenue Memorandum Order No. 8-2017 (Procedure for Claiming Tax Treaty Benefits for Dividend, Interest and Royalty Income of Nonresident Income Earners, dated 24 October 2016) insofar as the submission of a Certificate of Residence for Treaty Relief (CORTT) in order to avail of preferential treaty rates. Such submission of a CORTT shall be discontinued, provided that previously submitted CORTT Forms prior to effectivity of Revenue Memorandum Order No. 14-2021 shall still be forwarded to the relevant Revenue District Offices for compliance checks. The said revenue memorandum order streamlined the process in securing tax treaty relief. A withholding agent or income payor may decide whether to apply the preferential tax treaty rates based on the prescribed documents submitted by a non-resident taxpayer prior to payment of income for the first time.

Should the withholding agent or income payor decide to apply the preferential tax treaty rate, the said withholding agent or income payor is required to file with the BIR- International Tax Affairs Division (ITAD) at any time after the payment of the withholding tax, but in no case later than the last day of the fourth month following the close of the relevant taxable year, an RFC on the propriety of the withholding tax rates applied. Should the withholding agent or income payor decide not to apply the preferential tax treaty rate, the nonresident taxpayer may at any time after receipt of income file a tax treaty relief application (with a request for refund) with the BIR- International Tax Affairs Division.

## Sale, exchange or disposition of shares

### Capital Gains Tax, if sale was made outside the PSE

Unless an applicable treaty exempts such gains from tax or provides for preferential rates, the net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock (*i.e.* secondary sale of common shares by the holder to another party) outside the facilities of the PSE are subject to capital gains tax at the rate of 15% of the net capital gains realized during the taxable year. Capital gains tax will also apply if the publicly listed company that issued the shares sold does not comply the MPO requirement, If an applicable tax treaty exempts the gains from tax, an application for tax treaty relief must be properly filed with the Philippine tax authorities and should precede any availment of an exemption under a tax treaty.

The transfer of shares shall not be recorded in the books of a company, unless the BIR issues a CAR which certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid, or where applicable, a tax treaty relief has been confirmed by the ITAD of the BIR or other conditions have been met.

### Taxes on Transfer of Shares Listed and Traded at the PSE

Unless an applicable treaty exempts the sale from income and/or percentage tax, a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder (other than a dealer in securities), is subject to a stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed. This tax is required to be collected by and paid to the BIR by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, value added tax ("**VAT**") of 12% is imposed on the commission earned by the PSE-registered broker from services provided in connection with the sale of shares. VAT is generally passed on to the client.

The stock transaction tax will not apply if the shares are sold outside the facilities of the PSE, including during a trading suspension. PSE Memorandum CN-No. 2012-0046 dated 22 August 2012 provides that immediately after December 31, 2012, the SEC shall impose a trading suspension for a period of not more than six months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership ("**MPO**") which requires listed companies to maintain a minimum percentage of listed securities held by the public at 10% of the listed companies issued and outstanding shares at all times. SEC Memorandum Circular No. 13, Series of 2017 (the "**SEC 2017 Circular**"), which took effect on 5 December 2017, requires a higher MPO requirement of 20%. The SEC 2017 Circular covers any company applying for the registration of its shares of stocks for the purpose of conducting an IPO from 5 December 2017 but does not cover existing publicly listed companies as they remain subject to the 10% MPO requirement. The sale of such listed company' shares during the trading suspension may be effected only outside the trading system of the PSE and shall therefore be subject to taxes on the sale of shares that are not listed or traded at the stock exchange (i.e., capital gains tax, documentary stamp tax, and possibly donor's tax if the fair market value of the shares of stock sold is greater than the consideration or the selling price, as the amount exceeding the selling price shall be deemed a gift subject to donor's tax under Section 100 of the Tax Code).

However, under the TRAIN Law, exchanges made in the ordinary course of business—i.e., a transaction which is bona fide, at arm's length and free from donative intent, will be considered as made for an adequate and full consideration in money or money's worth and will not be subject to donor's tax. Companies which do not comply with the MPO after the lapse of the trading suspension shall be automatically delisted.

The stock transaction tax will also not apply if the shares sold are issued by a corporation that does not meet the MPO requirement, even if the sale is done through the facilities of the PSE. Revenue Regulations No. 16-2012 ("**R.R. 16-12**") provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within fifteen (15) days after the end of each quarter.

Prospective purchasers of the Common Shares should obtain their own tax advice in respect of their investment in relation to these developments.

**Documentary stamp tax**

The original issue of shares of stock is subject to documentary stamp tax ("**DST**") of Two Pesos (₱2.00) for each Two Hundred Pesos (₱200.00), or a fractional part thereof, of the par value of the shares of stock issued. The DST on the issuance of the Common Shares shall be paid by the Company.

The secondary transfer of shares of stock outside the facilities of the PSE (or if the publicly listed company that issued the shares sold does not comply the MPO requirement) is subject to a DST of One Peso and Fifty Centavos (₱1.50) for each Two Hundred Pesos (₱200.00), or a fractional part thereof, of the par value of the share of stock transferred. The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by the vendor or the purchaser of the shares. However, the sale, barter or exchange of shares of stock listed and traded at the PSE (provided that publicly listed company that issued the shares sold complies with the MPO requirement) is exempt from DST.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from DST. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

**Estate and Donor's tax**

Shares issued by a corporation organized under Philippine laws are deemed to have a Philippine *situs*, and any transfer thereof by way succession or donation, even if made by a non-resident decedent or donor outside the Philippines, is subject to Philippine estate and donor's tax, respectively.

The transfer of shares of stock upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien, regardless of residence, is subject to Philippine estate taxes at the rate of six percent (6%) of the net value of the estate at the time of death. On the other hand, individual stockholders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donor's tax on such transfer of shares a rate of six percent (6%) of the value of the gifts during the calendar year exceeding Two Hundred Fifty Thousand Pesos (₱250,000.00).

The sale, exchange, or transfer of shares outside the facilities of the PSE may also be subject to donor's tax when the fair market value of the shares of stock sold is greater than the amount of money received by the seller as this may qualify as a *transfer for less than adequate and full consideration* under the Tax Code. In this case, the excess of the fair market value of the shares of stock sold over the amount of money received as consideration may be deemed a gift subject to donor's tax. However, there is no *transfer for less than adequate and full consideration* if the transfer (by way of sale, exchange or otherwise) is made in the ordinary course of business, or one that is *bona fide,* at arm's length, and free from any donative intent. In this case, the transfer will be considered as made for an adequate and full consideration in money or money's worth, which is exempt from donor's tax.

Estate and donor's tax, however, shall not be collected in respect of intangible personal property, such as shares of stock: (a) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

**Taxation outside the Philippines**

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by way of donation (gift) or succession is subject to Philippine donor's or estate taxes, respectively as stated above.

The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on non-resident holders of shares of stock under laws other than those of the Philippines.

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# INTEREST OF EXPERTS AND INDEPENDENT COUNSEL

The financial statements of the Company were audited by Valdes, Abad & Co. for the financial year ending December 31, 2023 and by R.G. Manabat & Co. for the financial years ended December 31, 2022, 2021, and 2020. Said external auditors have no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

The validity of the Offer Shares and other matters concerning the Offer were passed upon for the Company by Cayetano Sebastian Ata Dado & Cruz, independent legal and tax counsel of the Company, that all necessary and applicable licenses and permits of the Company and the STN Subsidiaries are valid and existing. The independent legal counsel and tax counsel have no shareholdings or any interest, direct or indirect, in the Company, or any right, whether legally enforceable or not to nominate persons or to subscribe to the securities of the Company in accordance with the standards on independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The named external auditors and the independent and legal and tax counsels have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Company.

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# PHILIPPINE FOREIGN EXCHANGE AND FOREIGN OWNERSHIP CONTROLS

## Foreign Investment

Foreign investors are permitted to invest in the securities of a Philippine corporation unless otherwise limited by restrictions on foreign ownership imposed under the Constitution and Philippine statutes, as provided in the Foreign Investment Negative List.

### Registration of Foreign Investment and Exchange Controls

Under current BSP regulations, an investment in listed Philippine securities (such as the Company's Common Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits, and earnings that accrue thereon will be sourced from the Philippine banking system (*i.e.*, from authorized agent banks ("**AABs**") and AAB-forex corps). If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. BSP Circular No. 471 (Series of 2005), as amended, however subject foreign exchange dealers and money changes to R.A. No. 9160, or the Anti-Money Laundering Act of 2001, as amended, and requires these nonbank sources of foreign exchange to require foreign exchange buyers to submit supporting documents in connection with their application to purchase foreign exchange.

Registration of Philippine securities listed on the PSE may be done directly with the BSP or through an investor's designated custodian bank on behalf of the BSP. A custodian bank may be any AABs of the BSP or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. AABs refer to all categories of banks (except offshore banking units) duly licensed by the BSP, while AAB forex corps refer to AAB subsidiary or affiliate forex corporations whose business include buying and selling of foreign exchange.

Applications for registration of such securities are accompanied by: (i) Authority to Disclose Information in BSP-prescribed format covering all investments to be registered with the registering AAB, (ii) purchase invoice or subscription agreement, or equivalent document, and (iii) Certificate of Inward Remittance (CIR) of foreign exchange and its conversion to Pesos through an AAB in the format prescribed by the BSP. Proof of registration of the investment in such securities comes in the form of a *Bangko Sentral Registration Document* ("**BSRD**").

Upon registration of the investment, proceeds of divestments or dividends of registered investments are repatriable or remittable immediately in full through the Philippine commercial banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSRD from the registering custodian bank and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance is allowed at the exchange rate applicable on the date of actual remittance. Remittance of dividends is permitted upon presentation of: (a) the BSP registration document from the registering custodian bank; (b) the cash dividends notice from the PSE and the PCD printout of cash dividend payment or computation of interest earned; (c) copy of the secretary's sworn statement on the board resolution covering the dividend declaration; and (d) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the Monetary Board of the BSP, with the approval of the President of the Philippines, to restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent or in times of national emergency. Furthermore, there can be no assurance that BSP foreign exchange regulations will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

**Restriction on Foreign Ownership**

The Offer Shares may be purchased and owned by any person or entity regardless of citizenship, subject to applicable nationality limits under Philippine law

The Philippine Constitution and related statutes set forth certain restrictions on foreign ownership of companies that own lands in the Philippines.

The ownership of private lands in the Philippines is reserved for Philippine Nationals and Philippine corporations at least 60% of whose capital stock is owned by Philippine Nationals. The prohibition is rooted in Sections 2, 3 and 7 of Article XII of the 1987 Philippine Constitution, which states that, save in cases of hereditary succession, no private lands shall be transferred or conveyed except to individuals, corporations or associations qualified to acquire or hold lands of the public domain. In turn, the nationality restriction on the ownership of private lands is further underscored by Commonwealth Act No. 141 which provides that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Furthermore, Republic Act No. 7042, as amended, or the Foreign Investments Act of 1991, reserves to Philippine Nationals all areas of investment in which foreign ownership is limited by mandate of the Constitution and specific laws. Section 3(a) of said law defines a “Philippine National” as:

- A citizen of the Philippines;
- A domestic partnership or association wholly owned by citizens of the Philippines;
- A trustee of funds for pension or other employee retirement or separation benefits where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals;
- A corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; and
- A corporation organized abroad and registered as doing business in the Philippines under the Revised Corporation Code of the Philippines of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos.

However, the Foreign Investments Act of 1991 states that where a corporation (and its non-Filipino shareholders) own stock in a Philippine SEC-registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of both the investing corporation and the investee corporation must be owned and held by citizens of the Philippines. Further, at least 60% of the members of the board of directors of both the investing corporation and the investee corporation must be Philippine citizens in order for the investee corporation to be considered a Philippine National.

On May 20, 2013, the Philippine SEC issued Memorandum Circular No. 8, Series of 2013 which provided the Guidelines on compliance with the Filipino-Foreign ownership requirements under the Philippine Constitution and other existing laws by corporations engaged in nationalized or partly nationalized activities. The Guidelines provide that for purposes of determining compliance with the foreign equity restrictions in Nationalized Corporations, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

While the Company does not own lands, its wholly owned subsidiaries are registered owners of several parcels of land in the Philippines. In order for the Subsidiaries to remain compliant with the foreign ownership limitations, the Company must remain a Philippine National. As such, the Company’s foreign shareholdings may not exceed 40% of its issued and outstanding capital stock.

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# PLAN OF DISTRIBUTION

At least 110,347,919 Offer Shares (or 70% of the Offer Shares) shall be offered by the Company to QBs and other investors in the Philippines through the Issue Manager and Sole Underwriter (“**Institutional Offer**”). Up to 47,300,000 Firm Shares (or 30% of the Firm Shares) are being offered to all trading participants of the PSE (the “**TP**” or “**Trading Participants**”) and local small investors (“**LSIs**”) under the Local Small Investors Program being implemented by the PSE (the “**Trading Participants and Retail Offer**”; and the shares subject of the Trading Participants and retail offer, the “**Trading Participants and Retail Offer Shares**”). Out of the Trading Participants and Retail Offer Shares, up to 31,530,000 Firm Shares (or 20% of the Firm Shares) are being allocated to all PSE Trading Participants (the “**TP Offer**”), and up to 15,770,000 Offer Shares (or 10% of the Firm Shares) (the “**Retail Offer**”) are being offered to LSIs, subject to re-allocation as described below.

The allocation of the Offer Shares between the TP Offer and the Institutional Offer is subject to adjustment as agreed between the Company and the Issue Manager and Sole Underwriter. The Issue Manager and Sole Underwriter will underwrite, on a firm commitment basis, the Offer Shares, subject to any reallocation, clawback, clawforward or any other such mechanisms as described below, and pursuant to the terms of the Underwriting Agreement by and between the Company and the Issue Manager and Sole Underwriter.

**The Issue Manager and Sole Underwriter**

To facilitate the Offer, the Company has appointed Investment & Capital Corporation of the Philippines as the Issue Manager and Sole Underwriter to engage in underwriting and distribution of the Offer Shares. The Company and the Issue Manager and Sole Underwriter shall enter into an Underwriting Agreement dated on or about [●] (the “**Underwriting Agreement**”), whereby the Issue Manager and Sole Underwriter agrees to underwrite the Firm Offer on a firm commitment basis.

The Issue Manager and Sole Underwriter is authorized to organize a syndicate of underwriters, soliciting dealers and/or selling agents for the purpose of the Offer. In connection with the foregoing, the Issue Manager and Sole Underwriter may enter into agreements, participation agreements, or like agreements with other co-lead managers and managers and/or selling agents, as necessary. There is no arrangement for the Issue Manager and Sole Underwriter to return any unsold Institutional Offer Shares and Trading Participants and Retail Offer Shares to the Company.

**Investment & Capital Corporation of the Philippines**

ICCP is a leading independent investment house duly licensed and operating in the Philippines. ICCP was established in 1988. Its major shareholders include DBS Bank of Singapore, and a group of prominent Filipino business leaders in the Philippines led by Mr. Guillermo D. Luchangco, ICCP’s founder.

ICCP offers a spectrum of investment banking services including loan syndications and project finance, bond offerings, private placements, public offering of shares, securitization, financial advisory and mergers & acquisitions. ICCP obtained its license from the SEC to operate as an investment house in the Philippines and is licensed to engage in underwriting and distribution of securities to the public.

ICCP is currently engaged by the Company as the sole Issue Manager. The Company may from time to time in the future engage the services of ICCP again. However, all services provided by the Sole Issue Manager and including the Offer, have been provided as an independent contractor and not as a fiduciary to STN. ICCP does not have any right to designate or nominate a member of the Board. The Issue Manager has no direct relationship with the Company in terms of share ownership and, other than as Issue Manager and Sole Underwriter for the Offer, does not have any material relationship with the Company.

The Issue Manager and Sole Underwriter and its affiliates may have engaged in transactions with, and have performed various investment banking services for the Company and its affiliates in the past, and may do so for the Company and its affiliates from time to time in the future. However, all services provided by the Issue Manager and Sole Underwriter, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Company.

The Issue Manager and Sole Underwriter does not have any right to designate or nominate a member of the Board. The Issue Manager and Sole Underwriter has no direct relationship with the Company in terms of share ownership and, other than as Issue Manager and Sole Underwriter for the Offer, does not have any material relationship with the Company or the Selling Shareholder.

There is no arrangement for the Issue Manager and Sole Underwriter to return any of the Offer Shares relating to the TP Offer or the Institutional Offer to the Company. The underwriting fees shall be withheld by the Issue Manager and Sole Underwriter from the proceeds of the Offer.

**The Institutional Offer**

At least 70% of the Offer Shares, or 110,347,919 Offer Shares, will be offered for subscription or purchase to certain QBs and other investors in the Philippines by the Issue Manager and Sole Underwriter.

The allocation of the Offer Shares between the Institutional Offer and the TP Offer is subject to further adjustment as may be agreed upon between the Company and the Issue Manager and Sole Underwriter. In the event of an under-application in the Institutional Offer and a corresponding over-application in the TP Offer, Offer Shares in the Institutional Offer may be re-allocated to the TP Offer. In the event of an under-application in the TP Offer, the Offer Shares in the Trading Participants may be re-allocated to the Institutional Offer. The re-allocation shall not apply in the event of an over-application or under-application in both the Institutional Offer and the TP Offer.

**Trading Participants and Retail Offer**

**Trading Participants Offer**

Pursuant to the rules of the PSE, the Company will make available up to 31,530,000 Offer Shares (or up to 20% of the Offer Shares) for distribution to all PSE Trading Participants. The total number of Offer Shares allocated to the PSE Trading Participants will be distributed following the procedures indicated in the TP Guidelines to be posted in the PSE EDGE website after the approval by the PSE. Each PSE Trading Participant will be allocated a total of 260,000 Offer Shares (computed by dividing the Trading Participants Offer Shares among the 121 PSE Trading Participants) and subject to reallocation as may be determined by the Issue Manager and Sole Underwriter .

On or before 11:00 a.m. of [●], the PSE Trading Participants shall submit to the Receiving Agent their respective firm undertakings to purchase Offer Shares. On or before 12:00 noon of [●], the PSE Trading Participants shall submit their applications to purchase the Offer Shares evidenced by a duly accomplished and completed application form, together with the applicable supporting documents and payment.

PSE Trading Participants who take up the Trading Participants Offer Shares shall be entitled to a selling fee of 1.00%, inclusive of VAT, of the Trading Participants Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less a withholding tax which may be 10% or 15% depending on the gross income of the PSE Trading Participant for the current year, will be paid by the Receiving Agent to the PSE Trading Participants within fifteen (15) Business Days after the Listing Date.

All Offer Shares not taken up by the QIBs, the PSE Trading Participants, the general public and the Sole Underwriter's clients shall be purchased by the Sole Underwriter on a firm commitment basis pursuant to the terms and conditions of the Underwriting Agreement. Nothing herein or in the Underwriting Agreement shall limit the rights of the Sole Underwriter from purchasing the Offer Shares for their own account.

**LSI Subscriptions through PSE EASY**

A total of 15,770,000 Firm Shares (or 10% of the Offer Shares), shall be made available nationwide to LSIs through the PSE Electronic Allocation System or "PSE EASy." An LSI is defined as a subscriber to the Offer who is willing to subscribe to a minimum board lot or whose subscription does not exceed Php 100,000.00. In the case of this Offer, the minimum subscription of LSIs shall be 20,000 shares or

[Php18,000.00 up to Php20,000.00], while the maximum subscription shall be 50,000 shares or [Php90,000.00 up to Php200,000.00]. There will be no discount on the Offer Price.

The procedure in subscribing to Offer Shares via PSE EASy shall be described in STN's Implementing Guidelines for Local Small Investors to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Sole Issue Manager and Sole Underwriter shall prioritize subscriptions of small investors with amounts lower than the maximum subscription.

All Firm Shares not taken up by the QIBs, the PSE Trading Participants, the LSIs, the general public and the Sole Issue Manager, Sole Underwriter's clients shall be purchased by the Sole Issue Manager, Sole Underwriter on a firm commitment basis pursuant to the terms and conditions of the Underwriting Agreement. Nothing herein or in the Underwriting Agreement shall limit the rights of the Sole Issue Manager and Sole Underwriter from purchasing the Offer Shares for their own account.

**Voluntary Lock-up**

Under the Revised Rules on Backdoor Listing, (i) shares acquired pursuant to the transaction giving rise to backdoor listing shall be locked up from closing or completion of the transaction until six (6) months after the conduct of the public offering and (ii) shares held by stockholders owning at least ten percent (10%) of the total issued and outstanding shares shall be locked up for one (1) year from closing or completion of the transaction giving rise to backdoor listing. In STN's case, the transaction giving rise to the backdoor listing was the Company's reacquisition of SMPC occurred in 2019 and the 269,250,000 shares issued in relation thereto were issued on December 20, 2020. Hence, the lock-up requirement does not apply to STN.

Nonetheless, the following shareholders have agreed with the Issue Manager and Sole Underwriter that they will not, without the prior written consent of the Manager and Sole Underwriter, sell, assign or in any manner dispose of their Shares for a minimum period of 180 days after the Listing Date.

| Shareholder | No. of Shares Subject to 180-day Lock-up Period |
|---|---:|
| Roxburgh Investments Limited | 261,910,503 |
| Greenkraft Corporation | 101,237,482 |
| Golden Bales Corporation | 80,775,000 |
| Corbox Corporation | 80,775,000 |
| Clement Chua | 8,966,025 |
| Rex Chua | 8,966,025 |
| Nixon Lim | 1 |
| **TOTAL** | **542,630,036** |

To implement the lock-up requirement, the Company and the foregoing shareholders shall enter into an escrow agreement with RCBC Trust, the Escrow Agent for the Lock-Up Shares.

**Lodgment of Shares**

All of the Offer Shares shall be lodged with the PDTC and shall be issued to the PSE Trading Participants and LSIs in scripless form. Investors may maintain the Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Offer Shares from the PDTC's electronic system after the Listing Date.

**Selling Restrictions**

The distribution of this Prospectus or any offering material and the offer, sale or delivery of the Offer Shares is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Prospectus or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions.

This Prospectus may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

No securities, except for a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the SEC on Form 12-1 and the registration statement has been declared effective by the SEC.

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# LEGAL AND OTHER MATTERS

Legal matters in connection with the Offer have been passed upon by Tan Venturanza Valdez, the legal counsel to the Underwriter, and Martinez Vergara & Gonzalez Sociedad, legal counsel to the Issuer. The required expert opinions (on legality, on taxation and on permits and licenses) from independent counsel have been rendered by Cayetano Sebastian Ata Dado & Cruz.

Each of the foregoing counsels has no shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company. None of the legal counsels will receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer Shares.

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# INDEPENDENT AUDITORS

The Company's financial statements for the years ended December 31, 2021, and 2022 were audited by R.G. Manabat & Co, while the Company's financial statements for the year ended December 31, 2023 were audited and for the period ended September 30, 2024 were reviewed by Valdes Abad & Company, CPAs. Said external auditors have no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the professional standard on independence set by the Board of Accountancy and the Professional Regulation Commission.

**External Audit Fees And Services**

The following table sets out the approximate aggregate fees billed for each of the last four (4) fiscal years for professional services rendered by the Company's external auditors:

| Professional service fees rendered by the Company's external auditors | | | | |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 (est) |
| Audit Fee | P1,390,000.00 | P2,300,000.00 | P2,000,000.00 | P2,000,000.00 |
| Other Fees | 208,500.00 | 345,000.00 | 200,000.00 | 400,000.00 |
| TOTAL | **P1,598,500.00** | **P2,645,000.00** | **P2,200,000.00** | **P2,400,000.00** |

Mr. John Molina, a Partner at the audit firm R.G. Manabat & Co., was the external auditor of the Company for the period ended December 31, 2022. The Company intends to hire the said firm for the development of its STN Key Performance Indicator dashboard in 2024, hence, the need to change the external auditor for 2023. The Company's financial statements for the year ended December 31, 2023 were audited and for the period ended September 30, 2024 were reviewed by Valdes Abad & Company, CPAs (VACO). There has been no disagreement with either R.G. Manabat & Co or VACO.

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# INDEX TO FINANCIAL STATEMENTS



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# PARTIES TO THE OFFER

**Independent auditors**

The audited financial statements of the Company as of December 31, 2023 have been audited by Valdes Abad and Company, independent auditors. The auditing firm was nominated and recommended to the stockholders for appointment as external auditor for the year 2024.

**Independent market research consultant**
Euromonitor International Ltd.
60-61 Britton St., London
EC1M 5UX
United Kingdom

**Issue Manager and Sole Underwriter**
Investment & Capital Corporation of the Philippines
17/F Robinsons Summit Center 6783 Ayala Avenue,
Makati City, Philippines

**Legal counsels**

| LEGAL COUNSEL TO THE ISSUER | LEGAL COUNSEL TO THE ISSUE MANAGER AND UNDERWRITER |
|---|---|
| Martinez Vergara & Gonzalez Sociedad<br>33rd Floor, The Orient Square, F. Ortigas, Jr. Road Ortigas Center, Pasig City | Tan Venturanza Valdez<br>2704 East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City |

**Independent auditor**
Valdes Abad and Company
CJV Bldg., 108 Aguirre St., Legaspi Village
Makati City, Philippines

**Registrar, receiving and stock transfer agent**
Stock Transfer Service Inc.
34th Floor, Rufino Pacific Tower,
6784 Ayala Avenue, Makati City

**Escrow agent**
RCBC Trust Corporation
9/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue,
Makati City, Philippines

**SEC Number 23736**
**File Number ______**

**Steniel Manufacturing Corporation**
(Company's Full Name)

**Gateway Business Park, Bgry. Javalera, General Trias, Cavite**
(Company's Address)

**(046) 433-0066**
(Telephone)

**December 31**
(Fiscal Year Ending) (month & day)

**Form 17-Q**
Form Type

**Not Applicable**
Amendment Designation (If applicable)

**September 30, 2024**
Period Date Ended

**Not Applicable**
Secondary License Type and File Number

**STENIEL MANUFACTURING CORPORATION**
Gateway Business Park, Brgy. Javalera, Gen. Trias, Cavite

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** (the **"Group")** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the period ended **September 30, 2024**, 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 Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern basis of accounting unless management either intends to liquidate the Group or cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group'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.

**Valdes, Abad & Company, CPAs,** independent auditor, appointed by the stockholders has reviewed the financial statements of the Group 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 review.

| | |
|---|---|
| **Nixon Y. Lim** | **Eliza C. Macuray** |
| Chairman & President | Treasurer/Chief Financial Officer |

SUBSCRIBED AND SWORN to before me this JAN 07 2025 at Pasig City, affiants exhibiting to me the following:

| Name | Valid Identification |
|---|---|
| Nixon Y. Lim | Philippine Passport |
| Eliza C. Macuray | Philippine Passport |

Doc. No. 137;
Page No. 29;
Book No. I;
Series of 2025.

**GINO PAULO Q. UY**
**Notary Public for Pasig and Pateros**
**Appointment No. 215 (2024-2025)**
**Until December 31, 2025**
**Attorney's Roll No. 61567**
**IBP Receipt No. 493513; 01.02.25; Pasig City**
**PTR Receipt No. 2863425; 01.02.25; Pasig City**
**33rd Flr., The Orient Square, F. Ortigas, Jr. Road**
**Ortigas Center, Pasig City, Metro Manila 1600**
**MCLE Compliance No. VIII-BEP003278; 04.14.28**

Valdes Abad & Company
*(Formerly: Valdes Abad & Associates)*
certified public accountants

CJV Building 108 Aguirre Street, Legaspi Village, Makati City, Philippines

Branches:
Cebu and Davao

Phone: (632) 8892-5931 to 35
(632) 8519-2105
Fax: (632) 8819-1468
Website: www.vacocpa.com.ph
BOA/PRC Reg. No. 0314
SEC Accreditation No. 0361-F

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an association of legally independent accounting firms
partnering for success

The Board of Directors and the Stockholders
**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
Gateway Business Park
Brgy. Javalera, General Trias, Cavite

We have reviewed the consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** at September 30, 2024, which comprise of the consolidated statements of financial position, and the related consolidated statements of comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with the Philippine Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Group's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated financial statements are not presented fairly, in all material respects in accordance with the Philippine Financial Reporting Standards (PFRS).

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 15, 2024, Valid until July 14, 2027
SEC Accreditation No.0314 - SEC, Group A
Valid for 2022-2026 audit periods
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314/P-004
Issued on July 15, 2024, Valid until July 14, 2027
SEC Accreditation No. 99805 - SEC, Group A
Valid for 2022-2026 audit periods
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027

Makati City, Philippines
December 3, 2024

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND
THE REVISED CORPORATION CODE OF THE PHILIPPINES**

1. For the quarter ended on **September 30, 2024**

2. Commission identification number **23736**

3. BIR Tax Identification No **000-099-128**

4. Exact name of issuer as specified in its charter **Steniel Manufacturing Corporation**

5. Province, country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**

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

7. **Gateway Business Park, Brgy. Javalera, General Trias, Cavite**
   Address of issuer's office

8. Issuer's telephone number, including area code **(046) 433-0066**

9. Securities registered pursuant to Sections 8 and 12 of the SRC, 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 Shares | 1,418,812,081 |

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

    Yes [✓] No [ ]

    876,182,045 of the Company's common shares are listed at the Philippine Stock Exchange.

11. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

    Yes [✓] No [ ]

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

    Yes [✓] No [ ]

**TABLE OF CONTENTS**

## SIGNATURES

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

| | | |
|---|---|---|
| Registrant | : | STENIEL MANUFACTURING CORPORATION |
| | | |
| Signature | : | Nixon Y. Lim |
| Title | : | President |
| Date | : | December 12, 2024 |
| | | |
| Signature | : | Eliza C. Macuray |
| Title | : | Chief Financial Officer |
| Date | : | December 12, 2024 |

**Exhibit 1**

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Basic and Diluted Earnings Per Share)

| | Nine Months Ended | | Three Months Ended | |
|---|---|---|---|---|
| | 30-Sep-24 Unaudited | 30-Sep-23 Unaudited | 30-Sep-24 Unaudited | 30-Sep-23 Unaudited |
| **Revenues** | | | | |
| Product Sales | P2,372,565 | P2,456,377 | P709,230 | P717,834 |
| Service Income | 19,091 | 157,298 | 29 | 19,355 |
| **Total revenues** | **2,391,656** | **2,613,675** | **709,259** | **737,189** |
| Cost of sales and services | (1,931,934) | (2,273,257) | (531,593) | (615,557) |
| **Gross profit** | **459,722** | **340,418** | **177,666** | **121,632** |
| Operating expenses | (261,339) | (253,209) | (105,964) | (88,793) |
| Finance charges | (66,095) | (41,576) | (23,160) | (7,684) |
| Other income(charges), net | 29,994 | 159,529 | (11,787) | 140,909 |
| **Income before provision for income tax** | **162,282** | **205,162** | **36,755** | **166,064** |
| Income tax expense | (62,955) | - | (32,386) | - |
| **Net Income** | **99,327** | **205,162** | **4,369** | **166,064** |
| **Other Comprehensive Income** | | | | |
| Item that may be reclassified to profit or loss | | | | |
| Unrealized gain on financial assets at fair value through other comprehensive income | 23,418 | - | 17,385 | - |
| Remeasurement of defined benefit obligation | - | - | - | - |
| Income tax expense | - | - | - | - |
| Effect of changes in tax rate | - | - | - | - |
| | **23,418** | **-** | **17,385** | **-** |
| **Total Comprehensive Income** | **P122,745** | **P205,162** | **P21,754** | **P166,064** |
| **Basic and Diluted Earnings Per Common Share** | **P0.0700** | **P0.1446** | **P0.0153** | **P0.1170** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

| | **30-Sep-24 Unaudited** | **31-Dec-23 Audited** | **30-Sep-23 Unaudited** |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | P100,924 | P113,041 | P163,204 |
| Receivables - net | 680,445 | 852,708 | 1,121,494 |
| Inventories - net | 2,211,908 | 2,040,582 | 1,805,063 |
| Prepaid expenses and other current assets - net | 787,405 | 267,941 | 309,914 |
| | 3,780,682 | 3,274,272 | 3,399,675 |
| Asset held-for-sale | - | 47,896 | 47,895 |
| **Total Current Assets** | **3,780,682** | **3,322,168** | **3,447,570** |
| **Noncurrent Assets** | | | |
| Property and equipment - net | 853,508 | 775,385 | 814,609 |
| Right-of-use asset - net | 19,308 | 19,308 | 24,870 |
| Investments in equity instruments | 184,405 | 135,229 | 86,437 |
| Deferred tax assets | 4,580 | 4,580 | - |
| Other noncurrent assets | 1,297 | 1,737 | 1,737 |
| **Total Noncurrent Assets** | **1,063,098** | **936,239** | **927,653** |
| | **4,843,780** | **4,258,407** | **4,375,223** |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade payables and other current liabilities | 2,284,673 | 1,869,811 | 2,066,661 |
| Amounts owed to related parties | 46,140 | 47,883 | 41,433 |
| Current portion of lease liabilities | 9,403 | 9,403 | 6,677 |
| Current portion of borrowings | 1,010,884 | 942,134 | 703,278 |
| Income tax payable | 40,335 | 3,210 | - |
| **Total Current Liabilities** | **3,391,435** | **2,872,441** | **2,818,049** |
| **Noncurrent Liabilities** | | | |
| Borrowings, net of current portion | 447,409 | 468,231 | 563,476 |
| Lease liabilities - net of current portion | 12,812 | 12,812 | 20,876 |
| Retirement benefits liability | 21,888 | 13,940 | 12,099 |
| Deferred tax liabilities - net | - | - | 1,316 |
| **Total Noncurrent Liabilities** | **482,109** | **494,983** | **597,767** |
| **Total Liabilities** | **3,873,544** | **3,367,424** | **3,415,816** |
| **Equity** | | | |
| Capital stock | 1,418,812 | 1,418,812 | 1,418,812 |
| Additional paid-in capital | 408,423 | 408,423 | 408,423 |
| Reserve for retirement benefits liability | 204 | 204 | 204 |
| Net unrealized gain/ (loss) on investments in equity instruments | 26,398 | 6,003 | (3,346) |
| Deficit | (883,601) | (942,459) | (864,686) |
| **Total Equity** | **970,236** | **890,983** | **959,407** |
| | **P4,843,780** | **P4,258,407** | **P4,375,223** |

Please refer to the accompanying Notes to Unaudited Interim Consolidated Financial Statements.

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

| | 30-Sep-24 Unaudited | 31-Dec-23 Audited | 30-Sep-23 Unaudited |
|---|---|---|---|
| **Capital stock** | | | |
| Authorized – 1 billion common shares P1 per share | | | |
| Issued and outstanding | **P1,418,812** | **P1,418,812** | **P1,418,812** |
| **Additional paid-in capital** | **408,423** | **408,423** | **408,423** |
| **Reserve for retirement benefits liability** | | | |
| Beginning | 204 | 204 | 204 |
| Reserve for retirement benefits liability | - | - | - |
| | **204** | **204** | **204** |
| **Net unrealized gain(loss) on investments in equity instruments** | | | |
| Beginning | 6,003 | (3,346) | (3,346) |
| Changes in fair value of investments in equity instruments | 23,418 | 18,956 | - |
| Transfer of fair value reserve of equity instruments designated at FVOCI | (3,023) | (9,607) | - |
| | **26,398** | **6,003** | **(3,346)** |
| **Deficit** | | | |
| Beginning | (942,459) | (1,069,848) | (1,069,848) |
| Prior period adjustments for written off cost of disposed investment | (47,896) | - | - |
| Prior period adjustments for investment in stocks | 4,404 | - | - |
| Net income during the year | 99,327 | 117,782 | 205,162 |
| Transfer of fair value reserve of equity instruments designated at FVOCI | 3,023 | 9,607 | - |
| | **(883,601)** | **(942,459)** | **(864,686)** |
| **Total Stockholders' Equity** | **P970,236** | **P890,983** | **P959,407** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

| | 30-Sep-24 Unaudited | 31-Dec-23 Audited | 30-Sep-23 Unaudited |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | P162,282 | P174,206 | P205,162 |
| Adjustments for: | | | |
| Depreciation | 123,401 | 249,378 | 114,326 |
| Interest expense | 66,095 | 77,970 | 41,576 |
| Dividend income | (5,605) | (5,550) | (4,550) |
| Interest on lease | - | 3,608 | - |
| Retirement expense | 7,948 | 4,036 | 2,195 |
| Interest income | (41) | (51) | (24) |
| Reversal of provision for losses on receivables | (19,407) | - | - |
| Reversal of provision for inventory obsolescence | (15,409) | - | - |
| Gain on disposal of investment | - | (117,295) | (117,295) |
| Operating income(loss) before working capital changes | 319,264 | 386,302 | 241,390 |
| Decrease(increase) in: | | | |
| Receivables | 191,670 | 8,563 | (260,223) |
| Inventories | (155,917) | (152,122) | 83,397 |
| Prepaid expenses and other current assets | (545,295) | (129,657) | (112,520) |
| Increase(decrease) in: | | - | |
| Trade payables and other current liabilities | 414,861 | (167,422) | 29,428 |
| Net cash generated from operations | 224,583 | (54,336) | (18,528) |
| Interest paid | (64,943) | (77,970) | (41,576) |
| Dividend received | 5,605 | 5,550 | 4,550 |
| Benefits paid | - | - | - |
| Interest received | 41 | 51 | 24 |
| Net cash provided by (used in) operating activities | **165,286** | **(126,705)** | **(55,530)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property and equipment | (201,523) | (80,426) | (55,618) |
| Proceeds from sale of property and equipment | - | - | - |
| Proceeds from sale of investments in equity instruments | 16,589 | 69,421 | 38,879 |
| Additions to investments in equity instruments | (37,942) | (86,605) | (26,227) |
| Decrease in other noncurrent assets | 440 | 1,882 | 1,882 |
| Net cash provided by (used in) investing activities | **(222,436)** | **(95,728)** | **(41,084)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Loan availment | 1,279,000 | 3,732,865 | 317,602 |
| Payments of borrowings | (1,232,224) | (3,360,858) | (89,206) |
| Increase (decrease) in amounts owed to related parties | (1,743) | (11,737) | (18,187) |
| Payment of finance lease liability | - | (70,797) | - |
| Interest paid on leases | - | (3,608) | - |
| Net cash provided by (used in) financing activities | **45,033** | **285,865** | **210,209** |
| | | | |
| **NET INCREASE(DECREASE) IN CASH** | **(12,117)** | **63,432** | **113,595** |
| **CASH AT BEGINNING OF YEAR** | **113,041** | **49,609** | **49,609** |
| | | | |
| **CASH END OF YEAR** | **P100,924** | **P113,041** | **P163,204** |

**Exhibit 2**

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND YEAR ENDED DECEMBER 31, 2023

## 1. Corporate information

Background

Steniel Manufacturing Corporation ("STN" or the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 13, 1963. The Company and its subsidiaries (the "Group)" are engaged in the manufacturing, processing, and selling of all kinds of paper products, paper board and corrugated carton containers, and all other allied products and processes. The Company is listed in the Philippine Stock Exchange Inc. (PSE).

On September 11, 2013, the SEC approved the Amended Articles of Incorporation of the Company, extending the corporate life for another 50 years from September 13, 2013. With the passage of the Revised Corporation Code of the Philippines ("RCC"), the Company now has perpetual existence

Following a decision made by the Company's Board of Directors (BOD) in 1996 to reorganize the Group, the Company ceased manufacturing operations in June 1997 due to continuing business losses. As a result, reorganization of the Group was carried out and completed with the Company's principal activity now limited to holding of investments.

*Shareholdings*

Prior to 2006, Steniel (Netherlands) Holdings B.V. ("SNHBV"), a company incorporated in Amsterdam, The Netherlands, owned 82.2716% of the shares of the Company. SNHBV was then 100%-owned by Steniel (Belgium) Holdings NV ("Steniel Belgium"). In 2006, Steniel Belgium sold its shares in SNHBV to certain directors and officers of the company. With the sale of shares, SNHBV became the ultimate parent company.

Consequent to the restructuring of the loan in 2010 as will be discussed in Item 1 (H) below, the Company issued a total of 123,817,953 shares to Roxburgh Investment Limited (Roxburgh) through the conversion of debt to equity. The conversion resulted to the reduction of the Company's outstanding debt and recognition of additional paid in capital. As a result, Roxburgh became the owner of 12.3818% of the Company, while the ownership of SNHBV and the public was reduced to 72.0849% and 15.5333%, respectively.

On January 18, 2012, the shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited (Right Total, a limited liability company incorporated in British Virgin Islands as an investment company), to purchase up to 100% of the issued and outstanding shares of SNHBV. With the sale of shares of SNHBV, Right Total became the owner of the 72.0849% shares of SNHBV consequently making Right Total as the ultimate parent company.

On January 25, 2012, the Company received a tender offer report from SNHBV offering to purchase the 279,151,088 shares of minority investing public or 27.92% of the total issued shares at a price of P0.0012 per share or an aggregate price of P334.9 million. On February 25, 2012, a total of 2,115,692 common shares were tendered in the Tender Offer and accepted by SNHBV, constituting 0.0021% of the total outstanding capital stock of the Company. On March 8, 2012, payment for the Tendered Shares was delivered to the relevant broker participants on behalf of interested parties and there was a transfer to SNHBV of only 0.76% of the minority shares. Such accepted tender offer did not significantly change the percentage ownership of the minority investing public.

On June 26, 2019, the Company approved the reacquisition of Steniel Mindanao Packaging Corporation ("SMPC"), as described below, through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares. The Company also approved the conversion of the loans extended by Greenkraft Corporation ("Greenkraft") and Roxburgh into equity. These approvals were made in view of the need to address the negative equity of the Company.

As part of the preparations for these share issuances, the Board approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On October 7, 2020, Greenkraft Corporation (Greenkraft), Golden Bales Corporation (Goldenbales), Corbox Corporation (Corbox), Rex Chua and Clement Chua, as purchasers (collectively, the Buyer Group) entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares of the Company, for a consideration of P64.99 million or P0.10 per share, broken down as follows:

| Buyer | Number of Shares | Percentage of Ownership |
|---|---|---|
| Greenkraft Corporation | 216,679,430 | 21.67% |
| Corbox Corporation | 194,972,492 | 19.50% |
| Goldenbales Corporation | 194,972,492 | 19.50% |
| Clement Chua | 21,641,947 | 2.16% |
| Rex Chua | 21,641,947 | 2.16% |
| | 649,908,308 | 64.99% |

In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company, excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. The tender offer commenced on October 12, 2020 and ended on November 10, 2020 ("Tender Offer Period"). A total of 11,780,533 common shares of STN were tendered during the Tender Offer Period, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale on November 23, 2020 involving the 649,908,308 shares of the Company. The relevant taxes were paid and the corresponding CAR was secured. The transfer reduced the shareholding of SNHBV to 5% of the Company's outstanding capital stock.

On December 29, 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group, Greenkraft and Roxburgh. The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for unissued shares of the STN; and (ii) partly subscribed through conversion of liability into equity.

On October 6, 2023, SNHBV and Greenkraft sold a total of 130,940,604 shares in compliance with the backdoor listing rule which required the Company to comply with the minimum public ownership requirement of at least 20% of the outstanding capital stock. With the aforesaid sale, SNHBV ceased to be a shareholder of the Company.

The relevant taxes were paid and the corresponding CARs were secured. The Company's public float increased from 13.09% to 22.27%.

The Company's registered address and principal office is located at Gateway Business Park, Brgy. Javalera, General Trias, Cavite, Philippines.

Subsidiaries

The consolidated financial statements include the financial statements of the Company and the following subsidiaries incorporated in the Philippines:

| | Percent of Ownership | |
|---|---|---|
| | **2024** | 2023 |
| Steniel Cavite Packaging Corporation (SCPC)* | **100** | 100 |
| Steniel Mindanao Packaging Corporation (SMPC)** | **100** | 100 |

** Treasure Packaging Corporation (TPC) was merged with SCPC as approved by the SEC on May 30, 2018.*

*** SMPC was reacquired on December 29, 2020.*

1. *Steniel Cavite Packaging Corporation (SCPC)*

SCPC was incorporated and registered with the SEC on November 9, 1993 primarily to engage in the manufacturing, processing and selling of all kinds of paper products and processes.

On June 30, 2006, SCPC's BOD decided to discontinue its packaging operations in view of the continued business losses incurred since its incorporation, in addition to difficult economic and business conditions. SCPC used to purchase, process and resell various paper products and lease its machinery and equipment to generate income, until 2015 when the former was discontinued. On January 10, 2017, the SEC approved the equity restructuring of SCPC which has wiped out the deficit as at December 31, 2016.

TPC was incorporated and registered with the SEC on May 23, 1994 primarily to engage in the manufacturing, processing, purchasing, and selling on wholesale basis, paper, paper rolls, paper boards, cartons, containers, packaging material and other pulp and paper products. The registered office address and principal office of TPC is located at Hernan Cortes Street, Mandaue City, Cebu, Philippines.

On June 15, 2016 and July 8, 2016, SCPC's BOD and Shareholders, respectively, approved the change in its address and principal office at Gateway Business Park, Brgy. Javalera, General Trias, Cavite.

In 2016, the merger between SCPC and TPC (the former as the surviving entity) was approved by the BOD and Shareholders of the respective entities. The application for merger was filed with the SEC on April 10, 2017 and was approved on May 30, 2018.

SCPC's principal office is located at Gateway Business Park, Brgy. Javalera, General Trias, Cavite, Philippines.

2. *Steniel Mindanao Packaging Corporation (SMPC)*

SMPC was incorporated on June 30, 1995 primarily to engage in the business of manufacturing, importing, buying, selling or otherwise dealings in, at wholesale and retail, all kinds of paper, paper rolls, paper boards, cartons, containers, packaging materials and other pulp and paper products.

As at December 31, 2012, SMPC was a wholly-owned subsidiary of the Company. In December 2013, the Company sold its 9,249,995 common shares in SMPC to various entities and individuals.

In 2019, the BOD and Stockholders of the Company approved the reacquisition of shares of SMPC through a share swap transaction wherein all shareholders of SMPC will exchange all their shares in SMPC for shares of the Company. In preparation for these share issuances, the Company's BOD approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On December 29, 2020, the Company issued 269,250,000 shares to the shareholders of SMPC effecting the share swap following the SEC approval of the Company's increase in authorized capital stock on the same day. The transfer of the SMPC shares in favor of the Company was subsequently recorded after the relevant CARs were issued by the Philippine Bureau of Internal Revenue ("BIR").

SMPC's principal place of business is located at Km. 25 National Highway, Bunawan District, Davao City.

As at September 30, 2024, the operating subsidiaries of the Company are SCPC and SMPC.

Debt Restructuring

Due to the working capital drain experienced by the Group as a result of prior debt service payments and the difficult business and economic conditions during the period, the Group found it difficult to sustain further payments of debt while at the same time ensuring continued operations. The Parent Company failed to settle its outstanding short-term and long-term loans which were supposed to mature at various dates in 2004, 2005, and 2006 and was declared by the lending banks in default on May 25, 2006. Subsequently until 2009, the lending banks assigned and sold their respective outstanding loan balances to various third parties. On October 14, 2010, one of the new lenders, Greenkraft Corporation (Greenkraft), further assigned some of its loan receivables to Roxburgh.

After the assignment and sale of loans from the lending banks to third parties, discussions were made with new creditors/lenders to restructure the outstanding loans covered by the Omnibus Agreement which the Parent Company has defaulted in 2006. On October 15, 2010, the Parent Company and the current creditors/lenders signed the Amended and Restated Omnibus Agreement (the "Amended Agreement"), which finally resolved the default situation. The essential elements of the Amended Agreement are summarized below:

- The outstanding principal and accrued interest expense as at September 30, 2010 was restructured for 25years.

- Conditional waiver of penalty and other charges upon the faithful performance by the Parent Company of the terms of restructuring.

- The outstanding principal and accrued interest expense as of September 30, 2010 shall be reduced via dacion en pago or sale of the following properties: (a) all of the outstanding common and preferred shares of stock in Steniel Land Corporation (SLC); (b) identified idle assets of the Parent Company and its subsidiaries; and (c) by way of conversion into equity though the issuance of the Parent Company's unissued capital stock.

- The outstanding principal amount after the dacion en pago or sale of properties shall be paid in 92 consecutive quarterly installments starting in January 2013.

- The outstanding portion of the accrued interest after equity conversion shall be paid in 40 consecutive quarterly installments starting after year 15 from the date of restructuring.

- The restructured accrued interest expense prior to loan restructuring will be subject to interest of 8% per annum.

- Restructured outstanding principal will be subject to interest of 6% per annum for 15years and 8% per annum on the sixteenth ($16^{th}$) year and onwards.

- The restructured loan shall be secured by the assets/collateral pool under the Collateral Trust Agreement.

- All taxes and fees, including documentary stamp taxes and registration fees, shall be for the account of the Group.

- All other costs and expenses of restructuring including documentation costs, legal fees, and out-of-pocket expenses shall be for the account of the Parent Company, and

- Other conditions include:

   a. Lenders representative to be elected as director in the Parent Company and in each of its subsidiaries.
   b. A merger, reorganization or dissolution of certain subsidiaries in line with the Busines Plan.
   c. No dividend declaration or payments until the restructured obligations are fully paid.
   d. No new borrowing, unless with written consent of the lenders.
   e. No repayment or prepayment of any debt or obligation (other than operational expenses), unless with consent of the lenders.
   f. Creditor's consent for change in material ownership in the Group and mortgagors.
   g. Standard covenants, representations and warranties.

Dacion en pago and Equity Conversion

The dacion en pago of the Group's idle machineries, spare parts and the equity conversion through the issuance of the Company's capital stock have been completed as at December 31, 2010. The dacion en pago transaction reduced the outstanding loan principal amount by P122 million while the equity conversion reduced outstanding accrued interest by P248 million.

The dacion en pago relating to the Group's shares in SLC and a subsidiary's land and land improvements and building improvements has a total value of P290.0 million. In 2012, certain certificates authorizing registration were issued and reduced the total value from P290.0 million to P289.88 million. The assignment of shares was completed in 2023 after the issuance of the CAR. The change in ownership and management in early 2012 and the issuance of CAR generally caused the delay in the implementation of dacion en pago.

Pursuant to the Amended Agreement, the Company's outstanding principal and accrued interest was reduced through the conversion of a portion of the debt due to Roxburgh into common shares of the Company. The Company issued a total of 123,817,953 shares to Roxburgh which resulted to the conversion resulted to the reduction of the Company's outstanding debt and recognition of additional paid in capital.

Restructuring of Subsidiaries

In 2011, following the provisions in the Amended Agreement, the Company filed a merger application with the SEC to absorb TPC. On August 12, 2013, following management's assessment, the Board of the Company and TPC approved the withdrawal of the merger application filed with the SEC as the same no longer appears feasible. Management has been instructed to explore other options, i.e., merger of or with other subsidiaries.

In addition, SCPC submitted a merger application with SEC in October 2011 to absorb three (3) dormant subsidiaries: (a) Metroplas Packaging Products Corporation (MPPC), (b) Metro Paper and Packaging Products, Inc. (MPPPI) and (c) Steniel Carton System Corporation (SCSC) using June 30, 2011 financial statements. On March 2, 2012, the SEC approved the certificate of filing of the articles and plan of merger, which documents were received by SCPC on July 31, 2012. All financial information presented for the periods prior to the merger has been restated to reflect the combined financial statements of the absorbed corporation as though the merger has occurred at the beginning of 2010.

The Company had 39.71% direct and indirect (through SCPC & TPC) interest in SLC. In 2010, all of the ownership interest of TPC and STN was assigned to Greenkraft, and the remaining interest of SCPC in SLC was 29.21%.

In September 2023, the dacion en pago was completed relating to the Group's shares in SLC. The Group assigned its 727,050 preferred shares in SLC to Greenkraft to fully settle its remaining balance of borrowings to Greenkraft amounting to P190 million. As at June 30, 2024, and December 31, 2023, Greenkraft holds 100% interest in SLC.

Interest Payments

On December 2, 2011, the current creditors/lenders agreed to waive the payment of interest for the first 2 years of the loan commencing on the restructuring date, to correspond to the principal repayment as stated in the Amended Agreement. Hence, interest payments shall be made in accordance with the Amended Agreement but shall commence on the 27$^{th}$ month after the restructuring date, inclusive of a 2 year grace period. In relation to this, on March 1, 2012, the accrued interest which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was also condoned by its major creditors effective December 31, 2011.

In 2013, due to continuous working capital drain experienced by the Group as a result of difficult economic and business conditions, the Group requested reconsideration to defer the implementation of the loan agreement from the creditors which was acted favorably. The Group was granted another 2 years extension of principal repayment, reduction of interest rate from 6% to 2% for the first 5 years and further waive interest charges annually until 2019. Consequent to the BOD approval of the conversion of debt to common shares of the Parent Company in 2019, principal and interest payments on long-term debt was suspended beginning July 2019.

Status of Operations

The Group has temporarily ceased its principal operations and has incurred recurring losses in prior years resulting to a deficit of P884 million and P942 million, as at September 30, 2024 and December 31, 2023, respectively.

To improve this condition, the management has taken the following measures:

On July 17, 2019, the BOD and Stockholders of the Company approved the acquisition of shares of SMPC through a share swap transaction and the conversion of loans from Greenkraft and Roxburgh into common shares in the Company. To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the Articles of Incorporation to increase the authorized capital stock from P1 billion, divided into one billion common shares to P2 billion, divided into two billion common shares with par value of P1 per share.

On December 29, 2020, upon the SEC's approval of the Company's application for increase in authorized capital stock, the Company issued shares to the lenders effecting the debt to equity conversion thereby reducing the outstanding balance of the borrowings by P149.56 million. Further, the Company also issued shares to the shareholders of SMPC effecting the share swap transaction resulting to a provisional gain of P158.27 million from the acquisition of a subsidiary. The realization of these transactions resolved the capital deficiency position of the Group in 2021 and 2020.

There are no known trends, events or uncertainties that will have a material impact on the Steniel Group's future operations except those that have already been disclosed in the foregoing. There are no other sources of revenue or income that are not ordinary in nature.

Based on the foregoing, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in existence.

## 2. Basis of Preparation

Statement of Compliance

The accompanying unaudited interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS, issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited interim consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited interim consolidated financial statements include the accounts of Steniel Manufacturing Corporation and its subsidiaries. The unaudited condensed consolidated financial statements are presented in Philippine peso (Php), and all values are rounded to the nearest thousands except when otherwise indicated.

Basis of Measurement

The unaudited interim consolidated financial statements of the Group have been prepared on a historical cost basis except for investment in equity securities which are carried at fair value.

Functional and Presentation Currency

The unaudited interim consolidated financial statements are presented in Philippine peso, which is also the Group's functional currency. All financial information expressed in Philippine peso is rounded off to the nearest thousand peso, except when otherwise indicated.

Basis of Consolidation

The unaudited interim consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. In accordance with PFRS 10, *Consolidated Financial Statements*, the Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such control ceases.

The unaudited interim consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries incorporated in the Philippines.

| | Percent of Ownership | |
|---|---|---|
| | **2024** | 2023 |
| Steniel Cavite Packaging Corporation (SCPC)* | **100** | 100 |
| Steniel Mindanao Packaging Corporation (SMPC)** | **100** | 100 |

** Treasure Packaging Corporation (TPC) was merged with SCPC as approved by the SEC on May 30, 2018.*
*** SMPC was reacquired on December 29, 2020.*

## 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of Amendments to Standards and Interpretations</u>

The Financial Reporting Standards Council (FRSC) approved the adoption of amendments to standards and interpretations as part of PFRS. The following standards are relevant to the Group and have been adopted starting January 1, 2023.

*Amendments to PAS 1, Classification of Liabilities as Current or Non-current* – the amendments provide a more general approach to the classification of liabilities under PAS 1 based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. To:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

*Amendments to PFRS 17, Insurance Contracts* – the amendments' purpose is to address concerns and implementation challenges that were identified after PFRS 17 'Insurance Contracts' was published in 2017. The main changes are: deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023; additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk; recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination; extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives; amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held; simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts; and several small amendments regarding minor application issues.

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

*Disclosure of Accounting Policies (Amendments to PAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgements),* continues the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include:

- requiring companies to disclose their material accounting policies instead of their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material.

The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

*Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors),* clarifies how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively.

The amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

PAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific PFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, Income Taxes),* clarifies how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

PAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

<u>New and Amended Standards Effective Subsequent to 2023 but not Early Adopted</u>

Pronouncements issued but not yet effective as at December 31, 2023 are listed below. The Group intends to adopt the following pronouncements when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new pronouncements to have a significant impact on the consolidated financial statements.

<u>Effective beginning on or after January 1, 2024</u>

*Lease Liability in a Sale and Leaseback (Amendments to PFRS 16)*
The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognized no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Under PAS 8, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of PFRS 16.

*Classification of Liabilities as Current or Noncurrent – 2020 amendments and Non-Current Liabilities with Covenants – 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements).*
To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

- Removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead required that the right must have substance and exist at the end of the reporting period;
- Clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability’s classification at that date;
- Provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and
- Clarified that settlement of a liability includes transferring an entity’s own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retained application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

The amendments are not expected to have a significant impact on the preparation of consolidated financial statements.

Effective beginning on or after January 1, 2025

*PFRS 17, Insurance Contracts*
PFRS 17 replaced the interim standard, PFRS 4, Insurance Contracts. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering that fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

(a) Combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
(b) Presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
(c) Requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfillment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfillment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measure using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. These is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 Financial Instruments on or before the date of initial application of PFRS 17.

The standard is not expected to have significant impact on the Group's financial reporting.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current/non-current classification.

An asset as current when it is: (a) expected to be realized or intended to be sold or consumed in normal operating cycle; (b) primarily held for the purpose of trading; (c) expected to be realized within twelve months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is current when it is: (a) expected to be settled in normal operating cycle; (b) held primarily for the purpose of trading; (c) due to be settled within twelve months after the reporting period, or (d) There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments

*Recognition and Initial Measurement.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

Regular way purchases or sales of financial assets are accounted for at settlement date, i.e., the date that an asset is delivered to or by the Group. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

A financial asset (unless a receivable without a significant component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs. A receivable without a significant financing component is initially measured at the transaction price.

*Financial Assets*

The Group classifies financial assets at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group managers the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to the management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.
- Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amounts plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

The Group has no financial assets at FVPL as at September 30, 2024 and December 31, 2023.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

The Group's cash, receivables and refundable deposits are included under this category.

Cash in banks are stated at face value.

Financial Assets at FVOCI. Investments in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in OCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measure at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in equity instruments are recognized in profit or loss. When investment in debt instrument at FVOCI is derecognized, the related accumulated gains and losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statement of comprehensive income when the right to receive the payment has been established, unless unless the dividend clearly represents a recovery of part of the cost of the investment.

When investment in equity instruments at FVOCI is derecognized, the accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to profit or loss.

The Group's investments in equity instruments are classified under this category.

*Financial Liabilities*

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of it financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

As at September 30, 2024, and December 31, 2023, the Group has no financial liabilities at FVPL.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "interest expense" account in the consolidated statements of comprehensive income. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt as are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of comprehensive income.

The Group's trade payables and other current liabilities, amounts owed to related parties, lease liabilities and borrowings are included under this category.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asst and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Group is required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

<u>Impairment of Financial Assets</u>

The Group recognizes loss allowances for ECLs on financial assets measured at amortized.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past event, current conditions and forecasts of future economic conditions.

The Group measures loss allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group’s historical credit loses experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties;

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of comprehensive income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses, with the resulting impairment losses (or reversals) recognized in the consolidated statements of comprehensive income.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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 an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Business Combination

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Operating expenses" account in the consolidated statements of comprehensive income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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 at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of comprehensive income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree: plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquires; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of comprehensive income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of comprehensive income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

▪ *Goodwill in a Business Combination*

  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units 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. An impairment loss with respect to goodwill is not reversed.

<u>Inventories</u>

Inventories are stated at the lower of cost and net realizable value (NRV). Cost is determined on the basis of weighted average method. The cost of finished goods and work in process comprise raw materials used, direct labor costs and other direct costs and related production overheads (based on normal operating capacity). Materials and supplies are stated at invoice cost plus importation and other incidental charges. NRV is the estimated selling price in ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are derecognized either when sold or written-off. Provision for inventory losses is set up, when necessary, based on a review of the movement and current condition of each inventory item. Provision for inventory losses is provided, where necessary, for obsolete, slow-moving and defective inventories principally using age and physical condition as indicators. The amount of written-down inventories to NRV and all fosses of inventories are recognized as expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Prepaid Expenses and Other Current Assets

This account comprises of prepayments, prepaid taxes and input taxes. Prepayments are expenses paid in advance and recorded as assets before they are utilized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets; otherwise these are classified as other noncurrent asset.

Prepaid taxes pertain to the amount withheld by suppliers which can be applied against income tax due. It is carried at face value less allowance for unrecoverable tax credits. The Group maintains an allowance for the amount which can no longer be claimed or applied against income tax due.

Property and Equipment

Property and equipment, except land, are recorded at cost less accumulated depreciation, and impairment losses, if any. The initial cost of property and equipment consists of its purchase, including import duties taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Land is stated at cost less any impairment in value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to profit or loss during the period in which these are incurred.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of qualifying property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation, which commences when the assets are available for their intended use, is calculated using the straight-line method over its estimated useful life as follows:

| | Number of Years |
|---|---|
| Machinery and equipment | 3-10 |
| Building and improvement | 5 |

| | |
|---|---|
| Leasehold improvement | 2 to 10 or lease term, whichever is shorter |
| Transportation equipment | 3 - 5 |
| Furniture, fixtures and equipment | 3-5 |

The asset's residual values, estimated useful lives and depreciation method are reviewed periodically, and adjusted if appropriate, at each reporting date to ensure that method and period of depreciation and are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of comprehensive income in the period of retirement and disposal.

Asset Held-for-Sale

Assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered primarily through a sale transaction rather than continuing use. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the cost to sell that arises from the passage of time shall be presented as part of the operating expenses in profit or loss.

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. The Group recognizes a gain for any subsequent increase in fair value less costs to sell of an asset, not in excess of the cumulative impairment loss that has been recognized.

Once classified as held-for-sale, property and equipment are no longer amortized or depreciated and any equity-accounted investee is no longer equity accounted.

When changes to the plan of sale are made and the Group ceases to classify the asset as held-for-sale, the Group remeasures the asset at the lower of its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held-for-sale, and its recoverable amount at the date of the subsequent decision not to sell. Gain or loss recognized on measurement of a non-current asset classified as held-for-sale is presented under the operating income (expense) in the consolidated statements of comprehensive income.

An item of asset held-for-sale is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of asset held-for-sale (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Impairment of Nonfinancial Assets

The carrying amounts of prepaid expenses and other current assets, asset held-for-sale, right-of-use asset and property and equipment, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such 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 its remaining useful life.

Fair Value Measurements

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

The principal or most advantageous market must be accessible to the Group.
The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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 the categorization at the end of each reporting period.

For purposes 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.

Employee Benefits

*Short-term Employee Benefits*
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits*

The Group's net obligation in respect of the defined benefits plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in other comprehensive income. Such remeasurements are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest, and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

Capital Stock

Capital stock consists of common shares and is classified as equity Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. net of any tax effects.

Additional Paid-in Capital

Additional paid-in capital represents the excess of consideration received over the par value of capital stock.

Retained Earnings (Deficit)

Retained earnings (deficit) represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments.

Revenue Recognition

The Group recognizes revenue from contract with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for these goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a paint in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs 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 Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

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

*Revenue from Product Sales*

The Group manufactures and sells a wide range of paper, cartons and packaging materials in the domestic and international markets. Revenue from product sales is recognized at the point in time when control of the goods is transferred to the buyer, which is normally upon delivery of the goods. Trade discounts are determined at inception of the contract and is not subject to variability. Returns do not result to significant variable consideration. The general payment terms with customers are cash upon order and credit terms which generally ranges from 30 to 90 days from invoice date.

*Service income*

Service income is recognized at a point in time when the performance of contractually agreed task has been rendered and control over the service has been transferred to the customer. General payment terms are on an average of 30 days from invoice date.

*Rent Income*

Rent income from operating leases are recognized in profit or loss on a straight-line basis over the term of the lease agreement. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

*Dividend income*

Dividend income is recognized when the right to receive the payment is established.

*Interest income*

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

*Other income*

Other Income is recognized when earned.

Cost and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expense is recognized when incurred. Cost and expenses are recognized when incurred are presented in profit or loss using function of expense method.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset, and

- the Group has the right to direct the use of the identified asset.

*Group as Lessor*

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15, *Revenue from Contracts with Customers* to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

*Group as Lessee*

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable:

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee: and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e., lease that has a lease term of 12 months or less from the commencement date and does not contain a purchase option) and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

<u>Foreign Currency Transactions and Translation</u>

*Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rate of outstanding monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss under other expenses/income.

<u>Taxes</u>

Income tax expense for the year is composed of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (NICIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can beutilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recover.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

*Value-added Tax (VAT)*. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade payables and other current liabilities" accounts in the consolidated statements of financial position.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

SCPC was the only operating subsidiary of the Parent Company prior to the acquisition of SMPC. SCPC's activity after it ceased its packaging operations in 2006 is limited to leasing of properties. SMPC, on the other hand, was acquired on December 29, 2020. As such, SMPC's results of operations in 2020 were considered as pre-acquisition and were not consolidated in the consolidated statements of comprehensive income. Given the foregoing, SCPC's leasing business with SMPC represents the only reportable segment of the Group in 2020 and 2019. Following the acquisition of SMPC in 2020, the Group has only one business segment which is related to SMPC's packaging business.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted-average number of issued and outstanding common shares during the period.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (Le., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 4. Management's Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors: including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

*Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Philippine Peso It is the currency that mainly influences the sales price of services of the Group and the costs of providing these services.

*Operating Lease Commitments - Group as Lessor*. The Group has entered into an operating lease agreement as a lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on the operating lease.

*Incremental Borrowing Hate on Leases.* The Group cannot readily determine the interest rate implicit in the leases. Therefore, it uses its relevant incremental borrowing rate to measure lease liabilities.

The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific estimates.

*Determining the Lease Term of Contracts with Renewal Options - Company as Lessee.* The Group has a lease contract that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

*Classification of Financial Instruments.* The Group exercises judgments in classifying financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics.

*Business Model.* The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected: and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

*Cash Flow Characteristics - Payments of Principal and Interest.* For the purposes of this assessment, "principal' is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features:
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

The Group determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as at September 30, 2024 and December 31, 2023.

D*etermining whether the Group is Acting as a Principal or Agent in a Revenue Transaction.* The determination of whether the Group acts as a principal or agent in a contract is made by identifying each specified service promised to the customers in the contract and evaluating whether the Group obtains control of the specified service before it is transferred to the customer.

The Group determined that it acts as a principal in its revenue transactions.

*Measurement of Fair Values.* A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

<u>Estimates and Assumptions</u>

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

*Acquisition Accounting.* At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired assets as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets, if any, and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has determined that the acquisition of SMPC represents a business due to the presence of the integrated set of activities acquired.

*Assessment for ECL on Receivables.* The Group. applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Group has assessed that the forward-looking default rate component of its ECL on receivables are not material because substantial amount of receivables has been collected. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its receivables.

*Assessment for ECL on Other Financial Assets at Amortized Cost.* The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is rot material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in September 30, 2024 and December 31, 2023. The carrying amounts of other financial assets at amortized cost are as follows:

| | **30-Sep2024** | 31-Dec-2023 |
|---|---|---|
| Cash in banks | **P100,814** | P112,951 |
| Receivables | **680,445** | 852,708 |
| Refundable security deposits | **19,643** | 13,099 |
| | **P800,902** | P978,758 |

*Estimating Allowance for Inventory Obsolescence.* The Group's inventories are written down to their net realizable value (NRV) whenever their NRV fall below carrying amounts due to physical damage, obsolescence or adverse changes in prices. In determining NRV, management considers estimated selling price of inventories less the estimated costs of completion and the estimated costs necessary to make the sale.

*Estimation of Useful Lives of Property and Equipment.* The Groups estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded costs and expenses and decrease noncurrent assets.

*Determination of Impairment of Nonfinancial Assets* - PFRS requires that an impairment review be performed on prepaid expenses and other current assets; asset held-for-sale, right-of-use asset and property and equipment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Based on the assessment of the Group, certain nonfinancial assets are to be provided with allowance for impairment.

*Present Value of Defined Benefit Retirement Obligation.* The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

*Estimation of Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry-forward benefits of NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets of STN and SCPC have not been recognized as at September 30, 2024 and December 31, 2023, because management believes that it is not probable that future taxable profit will be available against which the deferred tax assets may be utilized.

*Provisions and Contingencies.* The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies in recognizing and measuring provisions, management takes risk and uncertainties into account.

The Group has not recognized any provisions in 2024 and 2023.

**5. Business Combination**

On December 29, 2020, the Group acquired 269,250,000 shares of SMPC, representing 100% equity interest in SMPC, in exchange for the 269,250,000 shares of stock of the Parent Company, issued at par value of P1 (Notes 1 and 16).

The following summarizes the recognized provisional and final amounts of assets acquired and liabilities assumed at acquisition date:

| | Provisional Amount | Fair Value Adjustment | Final Amount |
|---|---|---|---|
| **Assets** | | | |
| Cash | P34,257 | P- | P34,257 |
| Receivables | 336,333 | - | 336,333 |
| Inventories | 671,367 | - | 671,367 |
| Prepaid expenses and other current assets | 27,822 | - | 27,822 |
| Property and equipment | 323,705 | 155,924 | 479,629 |
| Right-of-use asset | 5,767 | 86 | 5,853 |
| Advances to third parties | 1,060 | - | 1,060 |
| Deferred tax assets | 19,779 | - | 19,779 |
| Input value-added taxes | 12,847 | - | 12,847 |
| Refundable security deposits | 1,343 | - | 1,343 |
| | 1,434,280 | 156,010 | 1,590,290 |
| **Liabilities** | | | |
| Trade payables and other current liabilities | 537,666 | - | 537,666 |

| | | | |
|---|---|---|---|
| Loans payable | 346,247 | - | 346,247 |
| Amounts owed to related parties | 108,653 | - | 108,653 |
| Lease liabilities (including current portion) | 6,283 | (217) | 6,066 |
| Income tax payable | 114 | - | 114 |
| Deferred tax liability | - | 46,777 | 46,777 |
| Retirement benefits liability | 7,858 | - | 7,858 |
| | 1,007,021 | 46,560 | 1,053,281 |
| **Total identifiable net assets** | **P427,259** | **P109,450** | **P536,769** |

Provisional and final gain as a result of the acquisition of a subsidiary follows:

| | Provisional Amount | Fair Value Adjustment | Final Amount |
|---|---|---|---|
| Consideration transferred: | | | |
| Capital stock | 269,250 | - | 269,250 |
| Total identifiable net assets | 427,259 | 109,450 | 536,709 |
| **Gain on acquisition** | **158,009** | **109,450** | **805,959** |

As a result of adjustments to correct the fair values of properties and equipment acquired, the resulting gain in acquisition increased by P109.450 million. Accordingly, the gain on the acquisition of SMPC amounted to P267.459 million and recognized as "Gain in acquisition of a subsidiary" in the 2020 consolidated statement of comprehensive income.

Since SMPC was acquired on December 29, 2020, SMPC's results of operations in 2020 were considered as pre-acquisition. For the year ended December 31, 2020, the consolidated revenues and net income of the Group would have increased by P1,276.50 million and P15.94 million, respectively, had the acquisition been completed at the beginning of the reporting period.

## 6. Cash

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Cash in banks | **P 100,814** | P112,951 |
| Cash on hand | **110** | 90 |
| | **P 100,924** | P113,041 |

## 7. Receivables

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Trade receivables | **P707,971** | P906,524 |
| Non-trade receivables | **30,590** | 23,707 |
| | **738,561** | 930,231 |
| Less allowance for impairment losses on: | | |
| Trade receivables - third parties | **(58,116)** | (77,523) |
| | **P680,445** | P852,708 |

Trade receivables are non-interest bearing and are generally with 30 to 90-day term.

Non-trade receivables pertain to reimbursements of costs incurred on behalf of entity under common control.

The movements in the allowance for impairment losses is as follows:

| | 30-Sep-2024 | 31-Dec-2023 |
|---|---|---|
| Balance at beginning of year | **P77,523** | P77,523 |
| Reversal of provision for loss on receivables | **(19,407)** | - |
| Allowance during the year | **-** | - |
| Balance at end of year | **P58,116** | P77,523 |

## 8. Inventories

Inventories stated at lower of cost and NRV consist of:

| | 30-Sep-2024 | 31-Dec-2023 |
|---|---|---|
| Raw Materials | **P1,904,343** | P1,768,884 |
| Work-in-process | **37,162** | 33,916 |
| Materials and supplies | **217,007** | 193,263 |
| Finished goods | **64,805** | 71,338 |
| | **2,223,317** | 2,067,401 |
| Less allowance for inventory write-down | **(11,409)** | (26,819) |
| | **P2,211,908** | P2,040,582 |

The movements in the allowance for for inventory write-down is as follows:

| | 30-Sep-2024 | 31-Dec-2023 |
|---|---|---|
| Balance at beginning of year | **P26,819** | P26,819 |
| Reversal of provision for inventory obsolescence | **(15,410)** | - |
| Allowance during the year | **-** | - |
| Balance at end of year | **P11,409** | P26,819 |

## 9. Prepaid Expenses and Other Current Assets

This account consists of:

| | 30-Sep-2024 | 31-Dec-2023 |
|---|---|---|
| Input VAT – net | **P161,120** | P53,860 |
| Creditable withholding taxes | **77,006** | 63,200 |
| Prepaid importation charges | **510,916** | 123,729 |
| Refundable security deposits | **18,346** | 11,362 |
| Advances to suppliers | **1,863** | 1,863 |
| Prepaid insurance | **9,836** | 5,340 |
| Other prepayments | **10,161** | 10,430 |
| | **789,248** | 269,784 |
| Less allowance for impairment losses | **(1,843)** | (1,843) |
| | **P787,405** | P267,941 |

Input VAT represents accumulated input taxes from purchases of goods and services for business operations which can be applied against future output VAT.

Prepaid importation charges pertain to advance payments to various suppliers of imported paper rolls.

Refundable security deposits pertain to cash deposits on container vans and leases of warehouse and office space. Security deposits on container vans are refundable upon return of container vans while security deposits on leases are refundable at the end of the lease period.

Other prepayments include prepaid expenses for the period.

## 10. Asset Held-for-Sale

Investment in associate (SLC) represents 249,500 common shares and 4,920 voting preferred shares with a par value of P1 per share and P10 per share, respectively. The Parent Company's percentage of interest in SLC is based on its direct 10.22% equity plus the 29.49% equity in SLC held by its two (2) wholly-owned subsidiaries. All the shares are included in the dacion en pago in compliance with the approved loan restructuring (Note 1). This arrangement materialized in 2010 and the amount was reclassified from investment in associate to asset held-for-sale.

The ownership of the Group in SLC is measured at lower of the carrying amount and fair value less cost to sell. In 2012, the preferred shares held by the Parent Company in SLC amounting to P0.049 million were transferred to Greenkraft in relation to dacion en pago (Note 1) and reduced the loan for the same amount.

As at December 31, 2012, the carrying amount of the shares related to the Parent Company's preferred shares in SLC based on par value was also reduced to P0.249 million after issuance of the certificate authorizing registration.

In September 2023, the remaining dacion en pago was implemented relating to the Group’s shares in SLC. The Group assigned its shares in SLC with a cost of ₱72.705 million to Greenkraft as payment to its remaining balance of borrowings to Greenkraft amounting to ₱190 million. As of December 31, 2023, the Group has fully-settled its borrowings to Greenkraft.

The movements and balances of the asset held-for-sale as at September 30, 2024, and December 31, 2023 are as follows:

| | | |
|---|---|---|
| **Cost** | | |
| January 1, 2010 | ₱ | 417,779 |
| **Accumulated Share in Net Losses** | | |
| January 1, 2010 | | (28,012) |
| Share in financial performance for the year | | (55,197) |
| | | (83,209) |
| Allowance for impairment | | (199,958) |
| **Carrying Amount** | | |
| Carrying amount reclassified as asset held-for-sale in 2010 | | 134,612 |
| Assigned/written-off in 2012 | | (13,762) |
| Disposal | | (249) |
| Carrying amount as of January 1, 2023 | | 120,601 |
| Assigned in 2023 | | (72,705) |
| **Asset Held-for-Sale as of December 31, 2023** | | **47,896** |
| Impairment/Written-off | | (47,896) |
| **Asset Held-for-Sale as of September 30, 2024** | ₱ | **-** |

## 11. Property and Equipment

The movements and balances of property and equipment as at September 30, 2024 and December 31, 2023 are as follows:

| Particulars | Land | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Furniture, Fixtures and Equipment | Building and Improvements | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| December 31, 2022 | P185,587 | P607,931 | P40,411 | P18,736 | P12,636 | P344,876 | P5,653 | P1,215,830 |
| Additions | - | 29,435 | 1,970 | 4,261 | 3,760 | 1,392 | 39,608 | 80,426 |
| Disposals | - | - | - | (288) | - | - | - | (288) |
| **December 31, 2023** | **185,587** | **637,366** | **42,381** | **22,709** | **16,396** | **346,268** | **45,261** | **1,295,968** |
| Additions | - | 58,162 | 15,041 | 1,177 | 6,684 | 1,400 | 119,061 | 201,523 |
| Disposals | - | - | - | - | - | - | - | - |
| **September 30, 2024** | **185,587** | **695,528** | **57,422** | **23,886** | **23,080** | **347,668** | **164,322** | **1,497,491** |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| December 31, 2022 | - | 262,588 | 23,533 | 7,020 | 6,594 | 42,778 | - | 342,513 |
| Depreciation | - | 101,347 | 7,434 | 3,896 | 2,953 | 62,728 | - | 178,358 |
| Disposals | - | - | - | (288) | - | - | - | (288) |
| **December 31, 2023** | **-** | **363,935** | **30,967** | **10,628** | **9,547** | **105,506** | **-** | **520,583** |
| Depreciation | - | 66,930 | 3,967 | 2,820 | 2,467 | 47,218 | - | 123,401 |
| Disposals | - | - | - | - | - | - | - | - |
| **September 30, 2024** | **-** | **430,865** | **34,934** | **13,448** | **12,014** | **152,724** | **-** | **643,984** |
| **Carrying amount** | | | | | | | | |
| **December 31, 2023** | **P185,587** | **P273,431** | **P11,414** | **P12,081** | **P6,849** | **P240,762** | **P45,261** | **P775,385** |
| **September 30, 2024** | **P185,587** | **P264,663** | **P22,488** | **P10,438** | **P11,066** | **P194,944** | **P164,322** | **P853,508** |

The land and improvements thereon in San Vicente, Davao del Norte and land in Carmen, Davao del Norte are subject to mortgage under the Omnibus Loan and Security Agreement (OLSA) entered by the SCPC, SMPC and another affiliate in 2021 (Note 15). As at September 30, 2024, the aggregate carrying amount of mortgaged land and improvements amounted to P185.587 million.

## 12. Investments in Equity Instruments

The account consists of investments in shares of stock of utility companies and golf/country club memberships which were designated as financial assets at FVOCI.

The movements in investments in equity instruments are as follows:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **P129,226** | P102,435 |
| Additions | **37,942** | 86,605 |
| Disposals | **(13,566)** | (59,814) |
| Adjustments | **4,405** | - |
| Balance at end of year | **158,007** | 129,226 |
| **Changes in Fair Value** | | |
| Balance at beginning of year | **6,003** | (3,346) |
| Changes in fair value | **23,418** | 18,956 |
| Transfers of fair value reserve for investments in equity instruments designated at FVOCI | **(3,023)** | (9,607) |
| Balance at end of year | **26,398** | 6,003 |
| | **P184,405** | P135,229 |

## 13. Refundable Deposits

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Current portion (Note 9) | **P18,346** | P11,362 |
| Noncurrent portion | **1,297** | 1,737 |
| | **P19,643** | P13,099 |

## 14. Trade Payables and Other Current Liabilities

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Trade payables | **P113,844** | P403,780 |
| Payable to bank | **1,098,616** | 382,335 |
| Advances from customers | **267,997** | 424,158 |
| Accrued expenses | **566,142** | 544,003 |
| Deferred output VAT | **9,417** | 103,376 |
| Payable to government agencies | **228,393** | 11,922 |
| Others | **264** | 237 |
| | **P2,284,673** | P1,869,811 |

## 15. Loans and Borrowings

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Local bank loan: | | |
| Short-term loans | **P1,010,884** | P942,134 |
| Net of current portion | **447,409** | 468,231 |
| | **P1,458,293** | P1,410,365 |

Short-term Loans

Short-term loans from local banks are unsecured, peso-denominated promissory notes intended for additional working capital requirements of the SMPC.

Omnibus Loan and Security Agreement (OLSA)

On November 29, 2021, the SCPC, SMPC, and another affiliate, collectively as Borrowers, entered into an Omnibus Loan and Security Agreement (OLSA) with a local bank. The loan has seven-year term and up to an aggregate amount of P2 billion or its U.S. Dollar equivalent. The proceeds of the loan will be used to finance the purchase by the Borrowers of the subject assets as described in Section 1 of Part C of the OLSA. The loan drawdown will enable the Borrowers to purchase the subject properties and to operate the Dole Philippines Inc. (DPI) box plant property in Davao.

The loan has floating interest rate based on the prevailing market rate at each repricing date, with a one-time option to fix. The loan is secured by mortgaged properties as described in Part C, Section 3.02 and enumerated in Schedule II of the OLSA, and future receivables of the Borrowers, and guaranteed by the major shareholders of the Parent Company.

The other essential elements of the OLSA, among others, are summarized below:

a) The Borrowers are entitled to a grace period on principal payments for the first 12 months reckoned from the initial drawdown and shall pay only interest on the loan amount. At the end of the 13th month from the initial drawdown date, the Borrowers shall commence payment of the principal and interest. The principal payments shall be made in 72 equal monthly amortizations beginning on the 13th month from the initial drawdown date.

b) The Borrowers shall pay interest on the outstanding advance monthly in arrears at the interest rate on each interest payment for the interest period. The interest rate on the advance payment shall be the prevailing market rate as of the repricing date.

c) The Borrowers shall not sell, lease, transfer, grant or otherwise dispose all or substantially all of its properties and assets, except for leases entered into with any of the Borrower's affiliates for the lease of DPI Box Plant and Printing Plant.

d) Cross default and cross acceleration provision as an event of default. This is when the Borrower defaults in the payment of principal or interest or commits violation of any terms and conditions, or accelerate or permit acceleration, of any agreement and the lender believes that the breach or violation will adversely and materially affect the Borrower's operations or ability to perform its obligation under the OLSA.

e) No new borrowing, unless with consent of the lenders.

f) Creditor's consent for change in material ownership in the borrowers and mortgagors.

g) Standard covenants, representations and warranties

In December 2021, the SCPC initially availed of the loan amounting to $2,588,000 equivalent to P130.401 million for the purchase of land (Note 11).

On January 24, 2022, the SCPC availed the second and final drawdown of the loan amounting to $9,087,396.

As at November 29, 2022, the loan has been fully drawn by the SCPC and an affiliate.

In accordance with Part B, Section 5.01 (m) of the OLSA, the Borrowers are required to maintain debt to service coverage ratio of at least 1.25x, a total debt-to-equity ratio of 1.5 to 1, and a debt to EBITDA of no more than three times. The SCPC has failed to comply with the financial ratios indicated in the OLSA as at December 31, 2021. The OLSA provides that default provisions, other than payment default, are remediable within 30 days after written notice from the lender of such failure to comply with the terms or covenant in the OLSA.

As at December 31, 2023, the Borrowers have not received any notice of default from the lender that will trigger the non-compliance with financial ratios an event of default. On April 1, 2024, upon the request of SCPC, SCPC received a letter from the lender confirming that the bank did not declare SCPC in default under the OLSA notwithstanding their non-compliance with the required financial ratios as at December 31, 2023.

Transaction cost on loan availment pertaining to documentary stamp tax paid in 2021 amounted to P4.522 million, of which P1.002 million relates to initial drawdown in 2021 and the remaining balance of P3.520 million relates to final drawdown in January 2022 recorded as deduction from loans payable.

Omnibus Agreement (Amended in 2010)

Borrowings from Greenkraft and Roxburgh were secured loans and were originally obtained from lending banks under the Omnibus Agreement's revolving working capital facility subject to annual interest rates prior to assignment of the loan to third parties in 2006. The said creditors/lenders are now considered related parties of STN following the dacion en pago arrangements and reassessment of related party relationships in 2010.

The property and equipment of the Group and present and future receivables of the subsidiaries are used as collateral in accordance with the Amended Agreement. In 2012, the total fair value of assets pledged as security, which includes investment in an associate, land and land improvements and building and building improvements. declined from P290 million to P289.88 million (Note 1). In 2014. the land and land improvements and building and building improvements of SCPC were transferred to the creditors/lenders.

Furthermore, the Amended Agreement provides for certain affirmative and negative covenants subject for compliance by the Company and payment terms as discussed in Note 1. The dacion en pago was completed in 2023.

Upon approval of the Amended Agreement, the above creditors are aware of the Group's non-compliance with covenant due to the Group's financial condition and such will not be a ground to default from the Amended Agreement.

As discussed in Note 1, the accrued interest amounting to P294.6 million which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was condoned by its major creditors in 2011. In addition, the accrued interest in 2010 amounting to P13.1 million was also reversed in 2011 in relation to the 2-year grace period provided by its creditors. These were all offset against advances to SCPC as the proceeds of the original loan were loaned by the Parent Company to SCPC, subject to the same interest rates.

In 2012. TPC and SCPC's investment in shares of stock with SLC amounting to P0.64 million was assigned to Greenkraft as part of the dacion en pago arrangements (Note 1) resulting to a reduction of the borrowing balance.

In 2013, the creditors/lenders granted STN two (2) years extension of principal repayment, reduction of interest rate from 6% p.a. to 2% p.a. for the first five (5) years and further waive interest charges annually until 2019.

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the conversion of loans from Greenkraft and Roxburgh into common shares in STN. The minority shareholders present or represented at the meeting unanimously voted to waive the requirement to conduct a right or public offering of the shares to be issued by virtue of debt-to-equity conversion. Consequently, principal and interest payments on long-term debt was suspended beginning July 2019.

On December 29, 2020, the Parent Company issued 149,562,081 shares to Greenkraft and Roxburgh effecting the debt-to-equity conversion following the SEC approval of the Parent Company's increase in authorized capital stock on the same day (Note 16).

## 16. Equity

Capital Stock

Capital stock as at September 30, 2024, and December 31, 2023 consists of:

| | No. of Common Shares | Par Value Per Share | Amounts in Thousand |
|---|---|---|---|
| **Authorized** | **2,000,000,000** | **1** | **P2,000,000** |
| **Issued and Outstanding** | **1,418,812,081** | **1** | **P1,418,812** |

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the acquisition of shares of SMPC through a share swap transaction wherein all shareholders of SMPC will exchange all their shares in SMPC for shares of the Parent Company. On the same date, the BOD and Stockholders also approved the conversion of loans from Greenkraft and Roxburgh into common shares in STN (Notes 1 and 15). The said approvals were reconfirmed on November 19, 2020.

To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the AOI to increase the authorized capital stock from P1 billion, divided into one billion common shares to P2 billion, divided into two billion common shares with par value of P1 per share.

On December 29, 2020, the SEC approved the increase in authorized capital stock of the Parent Company. On the same date, the Parent Company issued 269.250,000 shares to the shareholders of SMPC in exchange for all of their shareholdings to the latter. The Parent Company also issued 149,562,081 shares to its lenders effecting the debt-to-equity conversion.

Expenses incurred that are directly attributable to the issuance of shares. net of related tax benefit, amounted to P6.21 million. Such amount was deducted against additional paid-in capital in 2020.

Additional Paid-in Capital

The Parent Company's loans were restructured in October 2010 and the 123,817,953 unissued shares amounting to P123.82 million were issued to a creditor to settle portion of the loan amounting to P247.63 million. The excess of the amount settled over the amount of issued shares (P123.81 million) was recognized as part of additional paid-in capital (Note 1).

Earnings Per Share

Basic earnings per common share in centavos for the 9 months ended September 30, 2024, and year ended December 31, 2023 is calculated as follows:

| | **30-Sep-2024** | 31-Dec-2023 |
|---|---|---|
| Net income | **P99,327** | P117,782 |
| Divided by weighted average number of common shares, in thousands | **1,418,812** | 1,418,812 |
| Basic and diluted earnings per share | **P0.0700** | P0.0830 |

There are no dilutive shares used in the computation of the earnings per shares, hence, basic earnings per share is the same with the dilutive earnings per share.

## 17. Revenues

Recognition of each revenue stream is as follows:

| | 30-Sep-2024 | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Products sold at point in time | **P2,372,565** | P3,225,431 | P1,716,844 |
| Services transferred over time | **19,091** | 181,436 | 488,569 |
| | **P2,391,656** | P3,406,867 | P2,205,413 |

The Company's disaggregation of each source of product sales is presented below:

| | 30-Sep-2024 | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Local sales | **P1,793,692** | P2,616,679 | P1,037,570 |
| Indirect export sales | **534,531** | 700,186 | 675,932 |
| Sales of scrap | **96,227** | 72,023 | 40,172 |
| Sales discount | **(51,885)** | (163,457) | (36,830) |
| Total | **P2,372,565** | P3,225,431 | P1,716,844 |

## 18. Cost of Sales and Services

This account consists of:

| | 30-Sep-2024 | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Cost of sales | **P1,923,257** | P2,862,344 | P1,653,233 |
| Cost of services | **8,677** | 121,636 | 170,401 |
| | **P1,931,934** | P2,983,980 | P1,823,634 |

Cost of Sales
Details of the account as follows:

| | 30-Sep-2024 | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| **Cost of sales** | | | |
| Raw materials, beg | **P1,768,884** | P1,729,512 | P549,309 |
| Add: Purchases | **1,662,979** | 2,550,446 | 2,630,557 |
| Total raw materials | **3,431,863** | 4,279,958 | 3,179,866 |
| Less: Raw materials, end | **(1,904,343)** | (1,768,884) | (1,729,512) |
| Raw materials used | **1,527,520** | 2,511,074 | 1,450,354 |
| Direct labor | **30,682** | 41,968 | 15,528 |
| Factory overhead | **361,768** | 345,563 | 221,704 |
| Total manufacturing cost | **1,919,970** | 2,898,605 | 1,687,586 |
| Add: Work-in-process, beg | **33,916** | 24,573 | 13,427 |
| Total goods available for manufacturing | **1,953,886** | 2,923,178 | 1,701,012 |
| Less: Work-in-process, end | **(37,162)** | (33,916) | 24,574 |
| Total goods manufactured | **1,916,724** | 2,889,262 | 1,676,438 |
| Add: Finished goods, beg | **71,338** | 44,419 | 21,214 |
| Total goods available for sale | **1,988,062** | 2,933,681 | 1,697,652 |
| Less: Finished goods, end | **(64,805)** | (71,338) | (44,419) |
| | **P1,923,257** | **P2,862,344** | **P1,653,233** |

Cost of Services
Details of the account as follows:

| | **30-Sep-2024** | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| **Cost of services:** | | | |
| Materials used | **P2,595** | P31,732 | P39,819 |
| Rent | **1,709** | - | - |
| Indirect labor | **1,355** | 18,159 | 30,231 |
| Depreciation and amortization | **1,068** | 23,142 | 62,123 |
| Utilities | **604** | 4,619 | 5,948 |
| Salaries, wages and benefits | **552** | 7,978 | 16,822 |
| Supplies | **383** | 3,531 | 2,443 |
| Repairs and maintenance | **127** | - | - |
| Outside services | **98** | 1,255 | 4,919 |
| Warehousing cost | **62** | 695 | 1,861 |
| Insurance | **63** | 2,490 | 5,204 |
| Fuel and oil | **9** | 111 | 477 |
| Taxes and licenses | **2** | 40 | 113 |
| Others | **50** | 300 | 441 |
| | **P8,677** | P94,052 | P170,401 |

Details of factory overhead for the years ended

| | **30-Sep-2024** | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Indirect materials used | **P144,233** | P70,980 | P36,756 |
| Indirect labor | **75,317** | 79,691 | 40,614 |
| Depreciation and amortization | **59,375** | 141,717 | 85,954 |
| Supplies | **21,274** | 2,737 | 14,964 |
| Utilities | **33,596** | 8,461 | 18,197 |
| Repairs and maintenance | **7,053** | 19,003 | 11,766 |
| Outside services | **5,434** | 6,600 | 4,540 |
| Rent | **5,025** | - | - |
| Warehousing cost | **3,467** | 2,480 | 3,155 |
| Insurance | **3,491** | 13,097 | 4,804 |
| Fuel and oil | **504** | 585 | 441 |
| Taxes and licenses | **110** | 212 | 105 |
| Others | **2,889** | - | 408 |
| | **P361,768** | P345,563 | P221,704 |

## 19. Operating Expenses

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Depreciation | **P62,960** | P84,517 | P84,121 |
| Salaries, wages and employee benefits | **62,889** | 71,581 | 56,328 |
| Delivery expense | **50,876** | 58,330 | 43,017 |
| Professional fees, outside services and legal fees | **34,523** | 21,755 | 15,087 |
| Insurance, taxes and licenses | **35,216** | 46,477 | 18,041 |
| Utilities | **23,976** | 51,963 | 16,043 |
| Representation and entertainment | **2,598** | 16,806 | 3,717 |
| Office and Computer supplies | **3,111** | 4,206 | 2,819 |
| Transportation and travel | **4,082** | 4,706 | 6,504 |
| Repairs and maintenance | **2,998** | 2,112 | 1,687 |
| Listing Fees | **920** | 261 | 250 |
| Rent expense | **1,117** | - | - |
| Publication fees | **185** | - | - |
| Provision for impairment | **-** | - | 12,582 |
| Reversal of previously recognized inventory write-down | **(15,409)** | - | (3,960) |
| Reversal of impairment losses of receivables | **(19,407)** | - | - |
| Others | **10,704** | 6,716 | 3,977 |
| | **P261,339** | P369,430 | P268,133 |

Other expenses includes commissions and incentives to third parties, photocopy expenses, advertising, bank charges, and other miscellaneous expenses.

## 20. Other Income (Charges)

This account consists of:

| | **30-Sep-2024** | 31-Dec-2023 | 31-Dec-2022 |
|---|---|---|---|
| Dividend Income | **P5,605** | P5,550 | P4,759 |
| Interest Income | **41** | 51 | 38 |
| Realized gain/loss on change in foreign exchange rate | **(153)** | 5,624 | (51,432) |
| Unrealized foreign exchange gains (losses) | **7,829** | - | - |
| Gain on disposal of investment | **-** | 117,295 | - |
| Gain on sale of property and equipment | **-** | - | 4,000 |
| Others | **16,672** | 46,223 | 5,913 |
| Total | **P29,994** | P174,743 | P(36,722) |

Others include penalty charges and interest income for late payment of receivables.

## 21. Significant Agreements

Tolling Agreements

The SMPC has tolling agreements with certain customers wherein these customers will provide paper rolls for the SMPC to process or manufacture into corrugated fiber board boxes at a guaranteed volume subject to the production frequency and specifications to be agreed by both parties. For the services provided, the SMPC will receive tolling fees which are recorded as "Service income" account in the statement of comprehensive income.

Lease Agreements

*Group as Lessor*

Prior to the acquisition of SMPC, the Group entered into a lease contract with SMPC for certain machinery and equipment. The lease contract is for a period of one year renewable for another year, subject to terms and conditions mutually agreed by the parties. In 2018, SCPC and SMPC agreed to lower the monthly rent for the leased asset from P5 million to P3 million. However, in 2019, both parties agreed to revert the monthly rent to P5 million. In 2020, SCPC granted a rent-free period covering months of September to December 2020 to alleviate the impact of COVID-19 to SMPC. Following the acquisition of SMPC in 2020, intercompany rent has been eliminated upon consolidation.

*Group as Lessee*

SMPC has existing lease agreements covering its office space, warehouses, machinery and equipment and other facilities which are presently used in Davao City for periods ranging from one (1) to ten (10) years, and a sales office and warehouse in General Santos City for a period of five (5) to ten (10) years, renewable under terms and conditions to be agreed upon by both parties.

Asset Sale Agreement

In May 2021 and August 2021, SCPC, SMPC and certain affiliates executed Asset Sale Agreement (ASA) with DPI, which was amended in December 2021. The asset sale agreement covered the purchase of parcels of land, machinery and equipment, motor vehicles, other assets and shared assets used in the Stanfilco Plants and Dolefil Box and Printing Plants. In the agreement. the SCPC will acquire Stanfilco Box Plant and Stanfilco machinery and equipment. SMPC will enter into long term supply agreement with DPI, and other affiliates will acquire other target assets listed in Schedule 2 of the ASA.

The SCPC has committed to purchase the allocated target assets with total purchase price of USD 9,383,761. As at November 29, 2022, the SCPC has completed the purchase of buildings and improvements, and machineries and equipment amounting to P484.038 million (inclusive of taxes).

Long-term Supply Agreement

In January 2022, in relation to the Asset Sale Agreement, SMPC entered into a long-term supply agreement with DPI to supply boxes, packaging materials, including parts thereof such as cartons, dividers, pods, lids, joints, walls, slots, panels, labels and other printed materials, made of paper, kraft, corrugated boxes and other paper related products. The long-term supply agreement has a term of nine years and six months beginning from August 24, 2022 until February 23, 2032. The agreement can be renewed subject to discussion of the parties.

The transition initiated on February 24, 2022, taking over operations under a tolling arrangement for six months. This period was extended to aid DPI in depleting its substantial inventory of paper rolls. Despite the extension, DPI continued to hold a considerable inventory, leading to an agreement with the Group to further extend the tolling arrangement until depletion or reaching an acceptable inventory level, albeit with liquidation fees considerations.

## 22. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group's financial assets and liabilities, comprising mainly of cash in banks, receivables, investments in equity instruments, refundable security deposits, trade payables and other current liabilities, amounts owed to related parties, lease liabilities and loans and borrowings, are exposed to a variety of financial risks: liquidity risk, credit risk and market risk (includes foreign currency risk, and interest rate risk). Management ensures that it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Group's financial performance.

Risk management is carried out through the policies approved by the BOD. They identify and evaluate financial risk. The BOD provides principles on overall risk management and on specific areas such as liquidity risk, credit risk and market risk.

Liquidity Risk

Liquidity risk pertains to the failure of the Group's to discharge its obligations and commitments. The tight cash position limits its obligation to take advantage of increasing demands. The Group's financial liabilities include trade payables and other current liabilities, amounts owed to related parties, lease liabilities and loans and borrowings.

The Group regularly monitors its cash position, continuously negotiates with creditors for new credit terms and depends on the financial support from its operating subsidiary and shareholders to meet its obligation as they fall due.

In December 2020, significant amount of the Group's borrowings were converted into equity. The remaining assets subject to dacion en pago under the provisions of the Amended Agreement pertain to investment in preferred shares of SLC with fair value of P190 million with reference to the municipality zonal value of land owned by SLC. Upon completion of this transaction, the balance of borrowings will be paid in full.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from deposits with banks and receivables. Cash transactions are limited to high-credit-quality financial institutions.

The Group has established controls and procedures in its credit policy to determine and monitor the credit worthiness of its counterparties. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

| | 30-Sep-2024 | 31-Dec-2023 |
|---|---|---|
| Cash in banks | **P100,814** | P112,951 |
| Receivables | **680,445** | 852,708 |
| Refundable security deposits | **19,643** | 13,099 |
| Total | **P800,902** | P978,758 |

The credit risk for cash in banks is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterpatÿ. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any.

The Group does not execute any credit guarantee in favor of any counterparty.

*Cash in Banks*
Cash in banks are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash in banks has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its cash in banks have low credit risk based on the external credit ratings of its counterparties.

*Receivables*
The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence credit risk of the Group's customer base.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

*Refundable Security Deposits*
Deposits on property leased by the Group are generally refundable at the end of the term. The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information, management consider the credit quality of refundable deposits to be good.

*Credit Quality and Expected Credit Loss Assessment*
In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and. potential business dealings with the Group.

The table below shows the credit quality of the Group's financial assets as at:

| **September 30, 2024** | **High Grade** | **Medium Grade** | **Low Grade** | **Total** |
| --- | --- | --- | --- | --- |
| Cash in banks | **P100,814** | **P-** | **P-** | **P100,814** |
| Receivables | **-** | **622,329** | **58,116** | **680,445** |
| Refundable deposits | **-** | **19,643** | **-** | **19,643** |
| | **P100,814** | **P641,972** | **P58,116** | **P800,902** |

| December 31, 2023 | High Grade | Medium Grade | Low Grade | Total |
| --- | --- | --- | --- | --- |
| Cash in banks | P112,951 | P- | P- | P112,951 |
| Receivables | - | 775,185 | 77,523 | 852,708 |
| Refundable deposits | - | 13,099 | - | 13,099 |
| | P112,951 | P788,284 | P77,523 | P978,758 |

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any. available at the reporting period.

There are no significant changes in the credit quality of the counterparties' during the year.

It is the Group's policy to maintain accurate and consistent risk ratings across the financial assets which facilitates focused management of applicable risks. The Group utilizes an internal credit rating system based on its assessment of the quality of the financial assets.

The Group classifies its receivables into the following credit grades:

High Grade - This pertains to accounts with a very low probability of default as demonstrated by the customer/debtor long history of stability, profitability and diversity. The customer/debtor has the ability to raise substantial amounts of funds through the public markets. The customer/debtor has a strong debt service record and a moderate use of leverage.

Medium Grade - The customer/debtor has no history of default. The customer/debtor has sufficient liquidity to fully service its debt over the medium term. The customer/debtor has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The customer/debtor reported profitable operations for at least the past 3 years.

Low Grade - The customer/debtor is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. Operating performance could be marginal or on the decline. The customer/debtor may have a history of default in interest but must have regularized its service record to date.

The Group believes that the unimpaired amounts are past due by more than 60 days are still collectible based on historical payment behavioral analyses of the underlying counterparties' credit ratings.

<u>Market Risk</u>

Market risk is the risk that the changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Foreign Currency Risk*
The Group is exposed to foreign currency risk on its cash in banks and loans payable that are denominated in US Dollars. The Group regularly monitors the outstanding balance of its cash in banks and loans payable that are denominated in US Dollars and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to this foreign currency denominated asset.

*Interest Rate Risk*
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to interest rate risk relates primarily to the Group's loans and borrowings. The Group's exposure to changes in interest rates relates mainly to the long-term loan drawn from a local bank in 2021 with a floating interest rate based on the prevailing market rate at each repricing date. The Group's short-terms loans have fixed interest rates over the term of the loan.

*Share Price Changes of Investments in Equity Instruments*
The Group has investments in equity instruments traded in the Philippine Stock Exchange and are exposed to share price changes. Share price changes of investments in equity instruments arises from future commercial transactions and recognized assets and liabilities.

Fair Value Estimation of Financial Assets and Liabilities

*Cash in Banks and Receivables.* The carrying amounts of cash in banks and receivables approximate fair values due to the relatively short-term maturities of these financial instruments.

*Investments in Equity Instruments.* The fair value of quoted investments in equity instruments is determined by reference to their quoted bid prices at the reporting date (Level 1). The fair values of golf shares and country club memberships are based on cost since there is no realizable basis for fair value.

The Group does not have financial assets classified under Level 2 and 3.

*Refundable Security Deposits.* The carrying amount of refundable security deposits approximate the fair value, since the Group does not anticipate the carrying amount to be significantly different from the actual value that these deposits would be eventually collected.

*Trade Payables and Other Current Liabilities, Amounts Owed to Related Parties and Current Portion of Loans and Borrowings.* The carrying amounts of trade payables and other current liabilities, amounts owed to related parties and current portion of borrowings approximate fair value due to the relatively short-term maturities of these financial instruments.

*Borrowings, Net of Current Portion*. Borrowings, net of current portion are reported at their present values, which approximate the cash amounts that would fully satisfy the obligations as of reporting date. The carrying amount of long-term loans payable with floating interest rate with monthly repricing approximates its fair value.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total liabilities. while equity is total equity as shown in the consolidated statements of financial position. The Parent Company being a listed entity is covered by the PSE requirement of 10% minimum public ownership. The Parent Company is under suspended trading status in PSE since 2006 pursuant to the PSE's Implementing Guidelines for Companies under Corporate Rehabilitation when the Company notified the PSE in a disclosure that the stockholders have approved entering into rehabilitation proceedings (Note 1).

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capitalization requirements.

**Exhibit 3**

**Part 1: PERFORMANCE INDICATORS**

The following key performance indicators have been identified in measuring the performance of the Company: a) sales revenues, b) operating expenses, c) income from operations, and d) financial ratios. Key performance indicators are expressed in absolute peso amounts. These indicators are monitored on a periodic basis and are compared against targets set at the beginning of each year.

***Revenues*** Consolidated revenue for the 3rd quarter of 2024 was recorded at Peso 2,392 million consisting of Peso 2,373 million products sales and service income of Peso 19 million.

***Operating expenses*** Operating cost expenses on a consolidated basis was kept sustainably controlled at its minimum.

***Financial ratios*** Consolidated current assets as at September 30, 2024 amounted to Peso 3,781 million while current assets as at the same reporting date last year totaled Peso 3,448 million. Consequently, consolidated current liabilities as at September 30, 2024 amounted to Peso 3,391 million while current liabilities as at the same reporting date last year totaled Peso 2,818 million. Principal obligations are being settled as they fall due in accordance with the amortization schedule. Working capital ratio for the current quarter is 1.11. Working capital ratio is computed as the ratio of current assets over current liabilities. Debt-to-equity ratio is at 3.99. Below are the Financial Highlights and Key Performance Indicators of the Group.

**Financial Highlights and Key Performance Indicators**

**Consolidated Balance Sheet (amounts in thousands)**

| | | As at September 30, 2024 | | As at December 31 2023 | | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|---|
| Total Assets | ₱ | 4,843,780 | ₱ | 4,258,407 | ₱ | 585,373 | 13.75% |
| Current Assets | | 3,780,682 | | 3,322,168 | | 458,514 | 13.80% |
| Total Liabilities | | 3,873,544 | | 3,367,424 | | 506,120 | 15.03% |
| Current Liabilities | | 3,391,435 | | 2,872,441 | | 518,994 | 18.07% |
| Interest-bearing Loans | | 1,458,293 | | 1,410,365 | | 47,928 | 3.40% |
| Equity | | 970,236 | | 890,983 | | 79,253 | 8.90% |

**Consolidated Statements of Comprehensive Income**

| | | For the 9 months ended September 30 2024 | | 2023 | | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|---|
| Revenues (gross) | ₱ | 2,391,656 | ₱ | 2,613,675 | ₱ | (222,019) | (8.49%) |
| Gross Profit | | 459,722 | | 340,418 | | 119,304 | 35.05% |
| General & administrative expenses | | 261,339 | | 253,209 | | 8,130 | 3.21% |
| Earnings Before Interest, Taxes, Dep'n. & Amort. | | 228,377 | | 246,738 | | (18,361) | (7.44%) |
| Profit / (Loss) before tax | | 162,282 | | 205,162 | | (42,880) | (20.90%) |
| Profit / (Loss) after tax | | 99,327 | | 205,162 | | (105,835) | (51.59%) |
| Total Comprehensive Income (loss) | | 122,745 | | 205,162 | | (82,417) | (40.17%) |

**Consolidated Cash Flows**

| | | For the 9 months ended September 30 2024 | | 2023 | | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|---|
| Net Cash from Operating Activities | ₱ | 165,286 | ₱ | (55,530) | ₱ | 220,816 | 397.65% |
| Net Cash from Investing Activities | | (222,436) | | (41,084) | | (181,352) | (441.42%) |
| Net Cash from Financing Activities | | 45,033 | | 210,209 | | (165,176) | (78.58%) |

| Key Performance Indicators | For the 9 months ended September 30, 2024 | As at Dec. 31, 2023 |
|---|---|---|
| Current Ratio | 1.11 | 1.17 |
| Quick Ratio | 0.23 | 0.31 |
| Solvency Ratio | 1.25 | 1.27 |
| Debt Ratio | 0.80 | 0.78 |
| Debt-to-Equity Ratio | 3.99 | 3.64 |
| Interest coverage ratio | 3.46 | 1.48 |
| Asset to Equity Ratio | 4.99 | 4.64 |
| Gross Profit Margin | 0.19 | 0.12 |
| Net Profit Margin | 0.04 | 0.04 |
| Return on Assets | 0.02 | 0.01 |
| Return on Equity | 0.10 | 0.03 |
| Book value per share | 0.6838 | 0.6280 |

## Part 2: MANAGEMENT DISCUSSION AND ANALYSIS

### General Information and Group Structure

The Company has operating subsidiaries nationwide that produce their own corrugated boards for conversion to finished boxes. These facilities are located in Cavite and Davao and each is fully equipped with corrugators and converting machines. The finished products are mainly used for packaging consumer goods, fresh fruits, canned sardines, furniture and electronic goods. Marketing activities are coordinated centrally for most of the Company's high-volume customers. However, each of the operating subsidiaries is individually responsible for sales and marketing activities directed at their regional customers.

The business operations of Steniel Cavite Packaging Corporation (SCPC) gradually slowed down in 2006. The Board of Directors of SCPC approved the temporary cessation of plant operation on March 27, 2007 in view of the continued business losses incurred since its incorporation, in addition to difficult economic and business conditions. The machines and equipment of SCPC were disposed via dacion en pago during 2010 to reduce long-term borrowing as part of the loan restructuring agreement. The dacion en pago of its buildings was completed during the 1st semester of 2014. The salient points of the loan restructuring agreement are discussed in the succeeding portion of this report.

On August 20, 2008, Treasure Island Industrial Corporation (TIIC), owner of office space and warehouses, which Treasure Packaging Corporation (TPC) leases in Cebu, filed a case for ejectment, mandatory injunction and damages against TPC in the Municipal Trial Court Branch 2 (the "Court) in Mandaue City due to unpaid rental. On December 3, 2008, a decision was rendered by the Court finding that TIIC's complaint is meritorious and ordered TPC to vacate the subject premises and improvements and restore TIIC's possession thereof. Consequently, starting September 2008, TPC temporarily ceased its operations and separated all its employees. The Board formally approved the cessation of TPC's operation on March 10, 2009. Following its closure, the property and equipment of TPC were disposed of to partially settle its trade and other liabilities.

Effective year-end 2008, only the manufacturing facility in Davao under SMPC remains operational.

On January 18, 2012, the major and minority shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited (Right Total; a limited liability company incorporated in British Virgin Islands as an investment company), to purchase up to 100% of the issued and outstanding shares of SNHBV. With this sale of shares by SNHBV, Right Total became the owner of the 72.0849% shares of SNHBV consequently making Right Total as the ultimate parent company.

On January 25, 2012, the Parent Company received a tender offer report from SNHBV offering to purchase the 279,151,088 shares of minority investing public or 27.92% of the total issued shares at a price of P0.0012 per share or an aggregate price of P334.9 million. On February 25, 2012, only a total of 2,115,692 common shares were tendered in the Tender Offer and accepted by SNHBV, constituting 0.0021% of the total outstanding capital stock of the Parent Company. On March 8, 2012, payment for the Tendered Shares was delivered to the relevant broker participants on behalf of interested parties and there was a transfer to SNHBV of only 0.76% of the minority shares. Such accepted tender offer did not significantly change the percentage ownership of the minority investing public.

On June 26, 2019, the Company approved the reacquisition of Steniel Mindanao Packaging Corporation (“SMPC”), as described below, through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares. The Company also approved the conversion of the loans extended by Greenkraft Corporation (“Greenkraft”) and Roxburgh into equity. These approvals were made in view of the need to address the negative capital of the Company.

As part of the preparations for these share issuances, the Board approved the increase of the Company’s authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders’ meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On October 7, 2020, Greenkraft Corporation (Greenkraft), Golden Bales Corporation (Goldenbales), Corbox Corporation (Corbox), Rex Chua and Clement Chua, as purchasers (collectively, the Buyers) entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares of the Parent Company, for a consideration of P64.99 million or P0.10 per share, broken down as follows:

| Buyer | Number of Shares | Percentage of Ownership |
|---|---|---|
| Greenkraft Corporation | 216,679,430 | 21.67% |
| Corbox Corporation | 194,972,492 | 19.50% |
| Goldenbales Corporation | 194,972,492 | 19.50% |
| Clement Chua | 21,641,947 | 2.16% |
| Rex Chua | 21,641,947 | 2.16% |
| | 649,908,308 | 64.99% |

In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company, excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. The tender offer commenced on October 12, 2020 and ended on November 10, 2020 (Tender Offer Period). A total of 11,780,533 common shares of STN were tendered during the Tender Offer Period, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale on November 23, 2020 involving the 649,908,308 shares of the Company. The relevant taxes were paid and the corresponding CAR was secured. As of the date hereof, the transfer of the 649,908,308 common shares in favor of the Buyer Group has been recorded in the books of STN. The transfer effectively reduced the shareholding of SNHBV to 5% of the Company’s outstanding capital stock.

On December 29, 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group, Greenkraft and Roxburgh. The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for unissued shares of the STN; and (ii) partly subscribed through conversion of liability into equity.

Structure

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries incorporated in the Philippines.

| | Percent of Ownership | |
|---|---|---|
| | **2024** | 2023 |
| Steniel Cavite Packaging Corporation (SCPC)* | **100** | 100 |
| Steniel Mindanao Packaging Corporation (SMPC)** | **100** | 100 |

**Treasure Packaging Corporation (TPC) was merged with SCPC as approved by the SEC on May 30, 2018.*
*** SMPC was reacquired on December 29, 2020.*

SCPC is the only operating subsidiary of STN prior to the acquisition of SMPC. SCPC's activity after it ceased its packaging operations in 2006 is limited to leasing of properties. SMPC, on the other hand, was acquired on December 29, 2020. As such, SMPC's results of operations in 2020 were considered as pre-acquisition and were not consolidated in the statements of comprehensive income. Given the foregoing, SCPC represents the only reportable segment of the Group in 2020, 2019 and 2018.

On December 29, 2020, the Group acquired 269,250,000 shares of SMPC, representing 100% equity interest in SMPC, in exchange for the 269,250,000 shares of stock of the Parent Company, issued at par value of P1.

Status of Operations

The Group has temporarily ceased its principal operations and has incurred recurring losses in prior years resulting to a deficit of P884 million and P942 million, as at September 30, 2024 and December 31, 2023, respectively.

To improve this condition, the management has taken the following measures:

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the acquisition of shares of SMPC through a share swap transaction and the conversion of loans from Greenkraft Corporation and Roxburgh Investments Limited into common shares in the Parent Company. To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the Articles of Incorporation to increase the authorized capital stock from P1 billion, divided into one billion common shares to P2 billion, divided into two billion common shares with par value of P1 per share.

On December 29, 2020, upon the SEC's approval of the Company's application for increase in authorized capital stock, the Company issued shares to the lenders effecting the debt to equity conversion thereby reducing the outstanding balance of the borrowings by P149.56 million. Further, the Company also issued shares to the shareholders of SMPC effecting the share swap transaction resulting to a provisional gain of P158.27 million from the acquisition of a subsidiary. The realization of these transactions resolved the capital deficiency position of the Group in 2021 and 2020.

There are no known trends, events or uncertainties that will have a material impact on the Steniel Group's future operations except those that have already been disclosed in the foregoing. There are no other sources of revenue or income that are not ordinary in nature.

Based on the foregoing, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in existence.

Results of Operations

Consolidated revenue for the 3rd quarter of 2024 was recorded at Peso 2,392 million consisting of Peso 2,373 million products sales and service income of Peso 19 million.

Cost of sales on product sales and services recorded amounting to Peso 1,932 million.

Operating Plans

The Company's key strategies are focused on maximizing production to increase market share while maintaining profitability and continuously make use of available financial assets to augment revenues including the leasing activities.

Financial Conditions

Consolidated current assets as at September 30, 2024 amounted to Peso 3,781 million while current assets as at the same reporting date last year totaled Peso 3,448 million. Consequently, consolidated current liabilities as at September 30, 2024 amounted to Pesos 3,391 million while current liabilities as at the same reporting date last year totaled Peso 2,818 million. Principal obligations are being settled as they fall due. In accordance with the amortization schedule. Working capital ratio for the current quarter is 1.11.

Future expansion are considered, contemplating on business related to the company's core activities within the year. Significant capital spending is anticipated to support the project.

Financial Risk Management

The Company's financial assets and liabilities, comprising mainly of cash in banks, receivables, other non-current receivables, trade payables and borrowings and amounts due from/to related parties are exposed to a variety of financial risks, which include currency risk, credit risk, liquidity/funding risk and cash flow interest rate risk. The Company's management ensures that it has sound policies and strategies made to minimize potential adverse effects of those risks on its financial performance. Risk management is carried out through the policies approved by Board of Directors of the Company.

The foreign exchange risk of the Company arising from cash, trade receivables and payables is not significant. The net exposure is kept to an acceptable level by buying foreign currencies at spot rates when necessary to address short-term needs.

The Company is not significantly exposed to price risk on equity securities and proprietary club shares classified in the consolidated balance sheet as other assets. Furthermore, there are no foreign securities owned and held by the Company.

The fluctuation of future cash flows risk relates to the fluctuations of a financial instrument as a result of changes in the market interest rates with possible additional penalty charges. Since the declaration of default by the Company's lending banks in 2005, the interest rates applied are fixed.

As the borrowings are carried at amortized cost with fixed interest rate, the Company is not exposed to either cash flow or fair value interest rate risk. The Company has no significant interest-bearing assets, which are dependent on market interest rate that would affect the Group's income and operating cash flows.

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks, receivables and deposits with third parties. Cash transactions are limited to high-credit-quality financial institutions and are maintained with universal and commercial banks.

Liquidity risk relate to the failure of the Company or another party to discharge its obligations/commitments arising from receivables, payables and borrowings. Cash balances are considered low. The tight cash position limits its obligation to take advantage of increasing demands.

Establishing new sources of trade credit and working capital facility will change this problem. The Company's financial liabilities, which include borrowings, trade payables and other current liabilities are due within 12 months.

The Company's objectives when managing capital are to safeguard the its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**Steniel Manufacturing Corporation and Subsidiaries**
**Trade Receivables and Prepaid Expenses**
**As at September 30, 2024**
**In Thousands**

| | |
|---|---|
| **Receivables** | |
| Trade Receivables | |
| 1 to 60 days | |
| 61 to 120 days | P63,641 |
| Over 120 days | 425,128 |
| | 707,971 |
| Allowance for impairment losses | (58,116) |
| Net | 649,855 |
| Other receivables | 30,590 |
| Total | **P680,445** |
| | |
| **Prepaid expenses and other current assets** | |
| Creditable withholding taxes | P77,006 |
| Input VAT | 161,120 |
| Other Prepayments | 551,122 |
| | 789,248 |
| Allowance for impairment losses | (1,843) |
| Net | **P787,405** |
| | |
| Total Net | **P1,467,850** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**
**SEPTEMBER 30, 2024**

| | | | |
|---|---|---|---|
| **I** | SUPPLEMENTAL SCHEDULES REQUIRED BY REVISED SRC RULE 68 ANNEX 68-J | | |
| | A | FINANCIAL ASSETS | Attached |
| | B | AMOUNTS RECEIVABLES FROM DIRECTORS OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES) | Attached |
| | C | AMOUNTS RECEIVABLES AND PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION PROCESS OF FINANCIAL STATEMENTS | Attached |
| | D | LONG-TERM DEBT | Attached |
| | E | INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED PARTIES) | Not applicable |
| | F | GUARANTEES OF SECURITIES OF OTHER ISSUERS | Not applicable |
| | G | CAPITAL STOCK | Attached |
| **II** | | Reconciliation of retained earnings available for dividend declaration | Attached |
| **III** | | Map of group of companies | Attached |
| **IV** | | Financial Soundness Indicators as required by Revised SRC Rule 68 Annex 68-E | Attached |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**SEPTEMBER 30, 2024**

| Name of Issuing Entity | Number of Shares | Amount Shown in the September 30, 2024 Consolidated Statements of Financial Position | Income Received and Accrued |
|---|---|---|---|
| ABOITIZ POWER CORP. | 360,000 | P13,716,000 | P851,000 |
| ABOITIZ EQUITY VENTURES | 575,000 | 21,361,250 | - |
| ACEN CORPORATION | - | - | 30,000 |
| AYALA CORPORATION | 47,000 | 31,560,500 | 312,537 |
| AYALA LAND, INC. | - | - | 41,000 |
| BELLE CORPORATION | 250,000 | 487,500 | - |
| CHINA BANKING CORPORATION | 50,000 | 2,550,000 | 110,000 |
| CITICORE ENERGY REIT CORP | 200,000 | 612,000 | 30,400 |
| DDMP REIT INC. | 900,000 | 927,000 | 127,865 |
| DMCI HOLDINGS, INC. | 1,500,000 | 17,250,000 | 1,080,000 |
| EAST WEST BANKING CORP. | 10,000 | 97,600 | 5,400 |
| MANILA ELECTRIC CO. | 26,216 | 11,487,851 | 564,430 |
| MANILA WATER CORPORATION, INC | 1,177,000 | 31,249,350 | 1,328,833 |
| METRO PACIFIC INV. CORP. | 3,000,000 | 15,540,000 | 420,300 |
| PHINMA CORPORATION | 120,500 | 2,385,900 | 72,300 |
| PLDT INC. | 1,100 | 1,639,000 | 82,600 |
| RIZAL COMMERCIAL BANKING CORP. | 13,800 | 369,840 | 13,993 |
| ROCKWELL LAND CORP | 45,700 | 68,093 | 8,089 |
| SECURITY BANK CORPORATION | 80,000 | 7,676,000 | - |
| SYNERGY GRID & DEV. PHIL INC | 1,135,000 | 9,593,100 | 394,299 |
| SM PRIME HOLDINGS, INC. | 300,000 | 10,663,750 | 34,600 |
| UNIONBANK OF THE PHILIPPINES | 134,458 | 5,169,911 | 96,957 |
| | **9,925,774** | **P184,404,645** | **P5,604,603** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLES FROM DIRECTORS OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**SEPTEMBER 30, 2024**
*(Amounts in Thousands)*

**September 30, 2024**

| Name and designation of debtor | Balance at beginning of period | Amounts (collected) /transferred | Amounts written-off | Current | Non-current | Balance at end of period |
|---|---|---|---|---|---|---|
| SMC employees | P122 | P122 | P- | P- | P- | P- |
| Other related parties of SCPC | 823 | 823 | - | - | - | - |
| Other related parties of SMPC | 171,515 | 659 | - | 65,256 | - | 65,256 |
| | **P172,460** | **P1,604** | **P-** | **P65,256** | **P-** | **P65,256** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2024**
*(Amounts in Thousands)*

**September 30, 2024**

| Name and designation of Debtor | Beginning Balance | Additions (Collections) | Assignment / Condonation | Written Off | Current | Non-current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| Trade receivables | | | | | | | |
| Receivable of SCPC from SMPC | P286,961 | P190,784 | P- | P- | P477,745 | P- | P477,745 |
| Amounts owed by related party | | | | | | | |
| Receivable of SCPC from SMC | 121,892 | 38,228 | - | - | 160,120 | - | 160,120 |
| Receivable of SCPC from SMPC | - | 11,167 | - | - | 11,167 | - | 11,167 |
| Receivable of SMC from SMPC | 12,125 | 2,290 | - | - | 14,415 | - | 14,415 |
| Receivable of SMC from SCPC | - | 15,187 | - | - | 15,187 | - | 15,187 |
| | **P420,978** | **P257,656** | **P-** | **P-** | **P678,634** | **P-** | **P678,634** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE D - LONG-TERM DEBT**
**SEPTEMBER 30, 2024**
*(Amount in thousands)*

**September 30, 2024**

| Title of issue | Amount authorized by indenture | Amount shown under caption "Current portion of long term debt | Amount shown under caption "Long term debt" in related balance sheet |
|---|---|---|---|
| Loans payable | | | |
| Omnibus Loan and Security Agreement (OLSA) | **P1,458,293** | **P 1,010,884** | **P447,409** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED PARTIES)**
**SEPTEMBER 30, 2024**
*(Amount in Thousands)*

| Name of related party | Balance at beginning of period | Balance at the end of the period |
|---|---|---|
| | **NOT APPLICABLE** | |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**SEPTEMBER 30, 2024**

**SEPTEMBER 30, 2024**

| Name of issuing entity of securities guaranteed by the Company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of guarantee |
| --- | --- | --- | --- | --- |

**NOT APPLICABLE**

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE G – CAPITAL STOCK**
**SEPTEMBER 30, 2024**

**SEPTEMBER 30, 2024**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by: Related parties | Number of shares held by: Directors, officers and employees | Number of shares held by: Others |
|---|---|---|---|---|---|---|
| Common shares | 2,000,000,000 | 1,418,812,081 | - | 1,131,322,398 | 7 | 287,489,595 |

**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**AS REQUIRED BY REVISED SRC RULE 68 ANNEX 68-D**
**AS AT SEPTEMBER 30, 2024**
*(Amount in Thousands)*

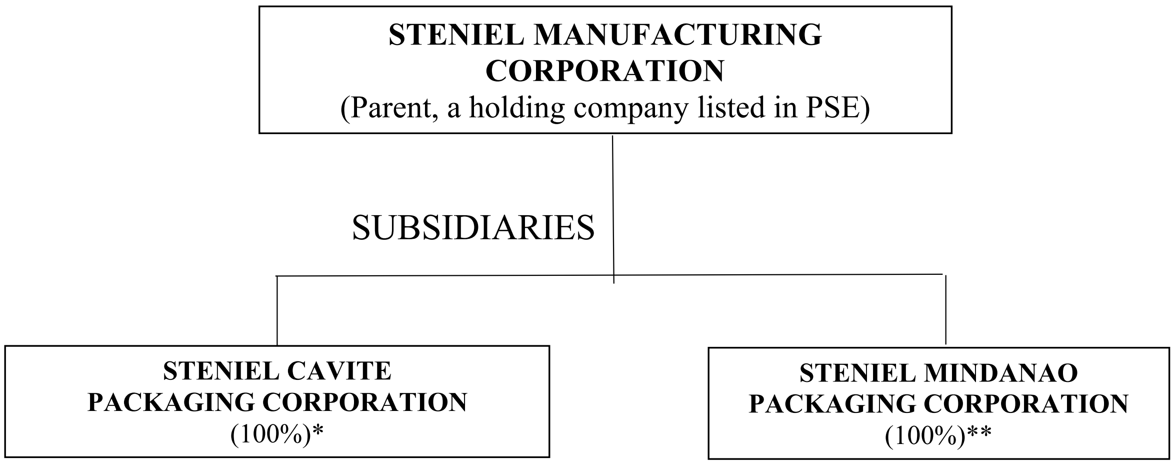
**STENIEL MANUFACTURING CORPORATION**
Gateway Business Park, Brgy. Javalera,
General Trias, Cavite, Philippines

| | |
|---|---|
| **Unappropriated Retained Earnings (Deficit), as adjusted to available for dividend distribution, beginning*** | **(P1,428,195)** |
| **Net income actually earned during the period** | |
| Net income during the period closed to Retained Earnings (Deficit) | **1,190** |
| **Unappropriated Retained Earnings (Deficit) available for dividend declaration, ending**** | **(P1,427,005)** |

**According to Section 5 of SEC Memorandum Circular No.11 (Series of 2008), a corporation cannot declare dividends when it has zero or negative Retained Earnings (otherwise known as Deficit).*
***Pursuant to the Restated and Amended Omnibus Agreement signed by the Company (as borrower) and lenders/creditor in October 2010, the Company is prohibited from declaring dividends to its owners until full payment of all amounts payable, unless consented in writing by the lenders/creditors.*

**STENIEL MANUFACTURING CORPORATION**
**AND SUBSIDIARIES**

**MAP OF CONGLOMERATE**




**Treasure Packaging Corporation is a wholly-owned subsidiary of Steniel Manufacturing Corporation (STN) which was merged with Steniel Cavite Packaging Corporation effective May 30, 2018.*
***Steniel Mindanao Packaging Corporation was acquired by STN on December 29, 2020*

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**Gateway Business Park,**
**Brgy. Javalera, General Trias, Cavite, Philippines**

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

| Ratio | Formula | **As of September 30, 2024** | As of December 31, 2023 |
|---|---|---|---|
| Liquidity: | | | |
| Current Ratio | Current Assets / Current Liabilities | **1.11** | 1.16 |
| Solvency: | | | |
| Debt to Equity Ratio | Total Liabilities (Current + Noncurrent) / Equity | **3.99** | 3.78 |
| Asset to Equity Ratio | Total Assets (Current + Noncurrent) / Equity | **4.99** | 4.78 |
| Profitability: | | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | Net Income Attributable to Equity Holders of the Parent Company / Average Equity Attributable to Equity Holders of the Parent Company | **0.30%** | 49% |
| | | **For the year ended September 30, 2024** | For the year ended December 31, 2023 |
| Operating Efficiency: | | | |
| Operating Margin | Income from Operating Activities / Net Sales | **8%** | 3% |
| Return on Equity | Net Income / Equity | **10%** | 13% |
| Return on Assets | Net Income / Total Assets | **2%** | 3% |

**The following document has been received:**

**Receiving:** REGGIENALD DE CASTRO
**Receipt Date and Time:** April 26, 2024 09:52:03 AM

## Company Information

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**SEC Registration No.:** 0000023736
**Company Name:** STENIEL MFG. CORP.
**Industry Classification:** D21010
**Company Type:** Stock Corporation

## Document Information

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**Document ID:** OST10426202482283947
**Document Type:** Financial Statement
**Document Code:** FS
**Period Covered:** December 31, 2023
**Submission Type:** Consolidated
**Remarks:** None

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Acceptance of this document is subject to review of forms and contents

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

SEC Registration Number

2 3 7 3 6

**COMPANY NAME**

S T E N I E L  M A N U F A C T U R I N G
C O R P O R A T I O N  A N D  S U B S I D I A R I E S

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

G A T E W A Y  B U S I N E S S  P A R K
B R G Y .  J A V A L E R A ,  G E N E R A L  T R I A S ,
C A V I T E

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

**COMPANY INFORMATION**

| Company's email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| N/A | 8361-9061 | |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 3,624 | Any Day in May | 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 |
|---|---|---|---|
| ELIZA C. MACURAY | elizmacuray@yahoo.com | 8361-9061 | 0918-911-0919 |

**CONTACT PERSON's ADDRESS**

Gateway Business Park, Brgy. Javalera, General Trias, Cavite

***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 thirthy (30) days from the occurance 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 delay inupdating the corporation's records with the Commisssion and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

**STENIEL MANUFACTURING CORPORATION**
Gateway Business Park, Brgy. Javalera, Gen. Trias, Cavite

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES (**the **"Group")** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2023 and 2022**, 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 Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern basis of accounting unless management either intends to liquidate the Group or cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group'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.

**Valdes, Abad & Company, CPAs,** and **R.G. Manabat & Co.,** independent auditors, appointed by the stockholders for the years ended December 31, 2023 and 2022, respectively, has examined the financial statements of the Group 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 examination.

| | |
|---|---|
| **Nixon Y. Lim** | **Eliza C. Macuray** |
| Chairman & President | Treasurer/Chief Financial Officer |

SUBSCRIBED AND SWORN to before me this APR 19 2024 at Pasig City, affiants exhibiting to me the following:

| Name | Valid Identification |
|---|---|
| Nixon Y. Lim | Philippine Passport [redacted] |
| Eliza C. Macuray | Philippine Passport [redacted] |

[redacted]

GENEVIEVE ...
Appointment No. 45 (2023-2024)
Notary Public for Pasig City, Pateros and San Juan
Until December 31, 2024
Attorney's Roll No. 80720
33rd Floor, The Orient Square
F. Ortigas Jr. Road, Ortigas Center, Pasig City
PTR Receipt No. 1634506; 01.02.24; Pasig City
IBP OR No. 330350; 12.18.23; RSM
Admitted to the Bar in 2022

Doc. No. 144;
Page No. 30;
Book No. VI;
Series of 2024.

Valdes Abad & Company
(Formerly: Valdes Abad & Associates)
certified public accountants

CJV Building 108 Aguirre Street, Legaspi Village, Makati City, Philippines

Branches:
Cebu and Davao

Phone: (632) 8892-5931 to 35
(632) 8519-2105
Fax: (632) 8819-1468
Website: www.vacocpa.com.ph
BOA/PRC Reg. No. 0314
SEC Accreditation No. 0314-SEC

gmni member
an association of legally independent accounting firms
partnering for success

## STATEMENT OF REPRESENTATION

**TO THE SECURITIES AND EXCHANGE COMMISSION:**

In connection with my examination of the separate financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** which are to be submitted to the Commission, I hereby represent the following:

1. That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA);
2. That said financial statements are presented in conformity with Philippine Financial Reporting Standards, in all cases where I shall express an unqualified opinion; except that in case of any departure from such principles, I shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;
3. That I shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;
4. That in the conduct of the audit, I shall comply with the Philippine Standards on Auditing promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of my examination, I shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of my opinion or which may necessitate the negation of the expression of an opinion;
5. That I shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of financial statements; and
6. That relative to the expression of my opinion on the said financial statements, I shall not commit any acts discreditable to the profession as provided under the Code of Professional Ethics for CPAs.

As a CPA engaged in public practice, I make these representations in my individual capacity and as a partner in the accounting firm of **VALDES ABAD & COMPANY, CPAs.**

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
SEC Accreditation No. 0314 - SEC, Group A
Valid for 2022 – 2026 audit periods
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
SEC Accreditation No. 99805 - SEC, Group A
Valid for 2022 – 2026 audit periods
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027

Makati City, Philippines
April 19, 2024

Valdes Abad & Company
*(Formerly: Valdes Abad & Associates)*
certified public accountants

CJV Building 108 Aguirre Street, Legaspi Village, Makati City, Philippines

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SEC Accreditation No. 0314-SEC

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**INDEPENDENT AUDITOR'S REPORT TO ACCOMPANYING FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and Board of Directors
**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
Gateway Business Park
Brgy. Javalera, General Trias, Cavite

We have examined the consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** for the year ended December 31, 2023, on which we have rendered the attached report dated April 19, 2024.

In compliance with Revised SRC Rule 68, we are stating that the Group has three thousand five hundred seventy-three (3,573) stockholders owning one hundred (100) or more shares each as of December 31, 2023.

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
SEC Accreditation No. 0314 - SEC, Group A
Valid for 2022 – 2026 audit periods
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
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Valid for 2022 – 2026 audit periods
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027

Makati City, Philippines
April 19, 2024

# INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
Gateway Business Park
Brgy. Javalera, General Trias, Cavite

## Opinion

We have audited the consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** (the Group) which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2023, 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 of December 31, 2023 and 2022 and of its consolidated financial performances and its consolidated cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRS).

## Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's 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 our 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.

## 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 as at and for the year ended December 31, 2023. 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.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement in the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter identified in our audit and how we addressed the matter is summarized as follows:

(a) *Occurrence and Accuracy of Revenue Recognition*

The Group booked a total revenue of ₱3.31 billion for the period ended December 31, 2023 which has increased by 154.48% as compared to the 2022 audited amount. Currently, the Group has financial goals which might be a pressure to the Management and may increase the risk on the proper revenue recognition.

The Group accounts the revenue when the control of goods or services is transferred to the customer overtime or at a point in time. The Group's revenue recognition process and measurement thereof are determined not to be complex and involve a simple judgment and estimation.

*Audit response*

We assessed the compliance of the on proper Revenue Recognition through a walkthrough of internal control, and its design, and tested material transactions posted on the revenue accounts by examining the related journal entries. Further, we have performed fluctuation analysis of revenue accounts with material increase. We also examined supporting documents such as contracts, sales invoices, and shipping documents such as delivery receipts to verify the occurrence and accuracy of recorded revenue on a test basis. Lastly, we reviewed the Group's adequacy of disclosures for revenue in Note 3 Summary of Significant Accounting Policies and Note 20 Revenue of the consolidated notes to financial statements.

*(b) Existence and Impairment Assessment of Inventories*

The carrying amount of inventories amounted to ₱2.04 billion as of December 31, 2023 representing 47.92% of the Group's total assets, and has increased by 47.92% from previous year. The management assesses the impairment of inventories whenever events or changes in circumstances indicate that the asset is impaired. This matter requires the use of significant judgments and estimates and hence, is significant to our audit.

*Audit response*

Initially, we examined the internal control of the inventory management and observed the physical ocular inspection after the balance sheet date. Test count of inventories, and roll-backward analysis were performed to determine the existence of inventory balance as of yearend. Further, we reviewed management's determination of impairment indicators and management's assessment on the recoverability of inventories which includes assumptions used by the Group on the determination of allowance for inventory losses, and compliance with the PAS 2 subsequent valuation of inventory. We also reviewed the adequacy of the Group's disclosures in Note 4, Management's Use of Judgements, Estimates and Assumptions, and Note 9, Inventories of the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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 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.

**Auditor's 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 auditor's 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, 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; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's 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. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is 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 the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's 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 audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may be 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 auditor's 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.

**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, 2023 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, 2023 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 audit 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 audit or otherwise appears to be materially misstated.

The consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** for the year ended December 31, 2022 were audited by another independent auditor whose report dated March 8, 2024 expressed an unqualified opinion on those consolidated financial statements.

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 0314 - SEC, Group A
Valid for 2022 – 2026 audit periods

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 99805 - SEC, Group A
Valid for 2022 – 2026 audit periods

Makati City, Philippines
April 19, 2024

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

***(Amounts in Philippine Thousand Peso)***

***(With Comparative Figures as of December 31, 2022)***

| | | December 31, | |
|---|---|---|---|
| **ASSETS** | Note | **2023** | 2022 |
| **CURRENT ASSETS** | | | |
| Cash | 7 | **113,041** | 49,609 |
| Receivables - net | 8 | **852,708** | 861,271 |
| Inventories - net | 9 | **2,040,582** | 1,888,460 |
| Prepayments and other current assets | 10 | **267,941** | 197,394 |
| Assets held for sale | 11 | **47,896** | 120,600 |
| Total Current Assets | | **3,322,168** | 3,117,334 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment - net | 12 | **775,385** | 873,317 |
| Investment in equity securities | 13 | **135,229** | 99,089 |
| Right-of-use asset - net | 26 | **19,308** | 24,870 |
| Deferred tax assets | 24 | **4,580** | - |
| Other assets | 14 | **1,737** | 3,619 |
| Total Non-Current Assets | | **936,239** | 1,000,895 |
| **TOTAL ASSETS** | | **4,258,407** | 4,118,229 |
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | **1,869,811** | 2,037,233 |
| Loans payable - net of non-current portion | 16 | **942,134** | 723,388 |
| Due to related parties | 17 | **47,883** | 59,620 |
| Lease liability - net of non-current portion | 26 | **9,403** | 6,677 |
| Income tax payable | | **3,210** | - |
| Total Current Liabilities | | **2,872,441** | 2,826,918 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans payable | 16 | **468,231** | 504,970 |
| Lease liability | 26 | **12,812** | 20,876 |
| Retirement liability | 25 | **13,940** | 9,904 |
| Deferred tax liabilities | 24 | **-** | 1,316 |
| Total Non-Current Liabilities | | **494,983** | 537,066 |
| **EQUITY** | | | |
| Share capital | 18 | **1,418,812** | 1,418,812 |
| Additional paid-in capital | 19 | **408,423** | 408,423 |
| Reserve for retirement liability | 25 | **204** | 204 |
| Unrealized gain on available for sale financial assets | 13 | **6,003** | (3,346) |
| Deficit | | **(942,459)** | (1,069,848) |
| Total Equity | | **890,983** | 754,245 |
| **TOTAL LIABILITIES AND EQUITY** | | **4,258,407** | 4,118,229 |

***See accompanying Notes to the Consolidated Financial Statements***

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

***(Amounts in Philippine Thousand Peso, Except for Basic and Diluted Earnings Per Share )***

***(With Comparative Figures as for the years ended December 31, 2022 and 2021)***

| For the Years Ended December 31, | Note | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **REVENUE** | 20 | | | |
| Sales | | **3,309,422** | 1,716,844 | 1,231,289 |
| Service income | | **97,445** | 483,186 | 45,216 |
| Rent income | | **-** | 5,383 | - |
| Total Revenue | | **3,406,867** | 2,205,413 | 1,276,505 |
| **COST OF SALES AND SERVICES** | 21 | **2,956,394** | 1,823,634 | 1,139,845 |
| **GROSS PROFIT** | | **450,473** | 381,779 | 136,660 |
| **OPERATING EXPENSES** | 22 | **369,432** | 268,133 | 115,079 |
| **FINANCE CHARGES, NET** | | **81,578** | 45,933 | 14,814 |
| **OTHER INCOME (LOSSES) - NET** | 23 | **174,743** | (36,723) | 12,184 |
| **NET INCOME BEFORE TAX** | | **174,206** | 30,990 | 18,951 |
| **INCOME TAX EXPENSE** | 24 | **56,424** | 2,635 | 984 |
| **NET INCOME** | | **117,782** | 28,355 | 17,967 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Unrealized gain (loss) on financial assets at FVOCI | 13 | **18,956** | (4,382) | 23,996 |
| Unrealized gain (loss) on defined benefit obligation | | **-** | (1,343) | 1,639 |
| Income tax expense (benefit) | | **-** | 336 | (410) |
| Effect of changes in income tax rate | | **-** | - | (18) |
| **TOTAL COMPREHENSIVE INCOME** | | **136,738** | 22,966 | 43,174 |
| **BASIC AND DILUTED EARNINGS PER SHARE** | | **0.0830** | 0.0200 | 0.0127 |

***See accompanying Notes to the Consolidated Financial Statements***

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

***(Amounts in Philippine Thousand Peso)***

***(With Comparative Figures as of December 31, 2022)***

| | Note | December 31, 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **SHARE CAPITAL** | | | | |
| Balance at beginning and end of year | 18 | **1,418,812** | 1,418,812 | 1,418,812 |
| **ADDITIONAL PAID-IN CAPITAL** | | | | |
| Balance at beginning and end of year | 19 | **408,423** | 408,423 | 408,423 |
| **NET UNREALIZED GAIN ON INVESTMENT IN EQUITY INSTRUMENTS** | 13 | | | |
| Balance at beginning of year | | **(3,346)** | 10,646 | (10,330) |
| Realized gain (loss) from fair valuation, net | | **18,956** | (4,382) | 23,996 |
| Transfer of fair value reserve of equity instrument held at FVOCI | | **(9,607)** | (9,610) | (3,020) |
| Balance at beginning and end of year | | **6,003** | (3,346) | 10,646 |
| **RESERVE FOR RETIREMENT BENEFITS LIABILITY** | 25 | | | |
| Balance at beginning of year | | **204** | 1,211 | - |
| Remeasurement gain (loss), net | | **-** | (1,007) | 1,211 |
| Balance at beginning and end of year | | **204** | 204 | 1,211 |
| **DEFICIT** | | | | |
| Balance at beginning of year | | **(1,069,848)** | (1,107,813) | (1,128,800) |
| Transfer of fair value reserve of equity instrument held at FVOC | 13 | **9,607** | 9,610 | 3,020 |
| Net income for the year | | **117,782** | 28,355 | 17,967 |
| Balance at end of year | | **(942,459)** | (1,069,848) | (1,107,813) |
| **TOTAL EQUITY** | | **890,983** | 754,245 | 731,279 |

***See accompanying Notes to the Consolidated Financial Statements***

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASHFLOWS**

***(Amounts in Philippine Thousand Peso)***

***(With Comparative Figures as for the years ended December 31, 2022 and 2021)***

| For the Years Ended December 31, | Note | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax | | **174,206** | 30,990 | 18,951 |
| Adjustment for: | | | | |
| Dividend income | 23 | **(5,550)** | (4,759) | (5,715) |
| Interest income | 23 | **(51)** | (38) | (25) |
| Interest expense | 16, 17 | **77,970** | 41,711 | 12,239 |
| Interest on lease | 26 | **3,608** | 4,223 | 2,575 |
| Depreciation | 12 | **249,378** | 232,198 | 122,442 |
| Retirement expense | 25 | **4,036** | 1,360 | 1,450 |
| Provision (Reversal) for inventory obsolescence | 9 | **-** | 3,960 | (15,388) |
| Gain on disposal of invesment | 16 | **(117,295)** | - | - |
| Gain on sale of property and equipment | 12 | **-** | (4,000) | - |
| Unrealized foreign exchange (gain) loss | 21 | **-** | (65,901) | 1,009 |
| Provision for expected credit losses | 8 | **-** | 12,582 | 20,814 |
| Operating income before changes in working capital | | **386,302** | 252,326 | 158,352 |
| Decrease (increase) in: | | | | |
| Receivables, net | | **8,563** | (449,067) | (109,144) |
| Inventories, net | | **(152,122)** | (1,249,744) | 38,722 |
| Prepayments and other current asset | | **(129,657)** | (81,507) | (31,285) |
| Increase (decrease) in: | | | | |
| Trade and other payables | | **(167,422)** | 1,465,449 | 90,135 |
| Cash generated from (used for) operations | | **(54,336)** | (62,543) | 146,780 |
| Dividend received | 23 | **5,550** | 4,759 | 5,715 |
| Interest received | 7 | **51** | 38 | 25 |
| Interest paid | | **(77,970)** | (41,711) | (12,239) |
| Benefits paid | 25 | **-** | (184) | (284) |
| Net Cash from Operating Activities | | **(126,705)** | (99,641) | 139,997 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of properties and equipment | 12 | **(80,426)** | (514,561) | (168,707) |
| Proceeds from properties and equipment | 12 | **-** | 30,000 | - |
| Additions of investments in equity securities | 13 | **(86,605)** | (26,830) | (15,826) |
| Proceeds from investments in equity securities | 13 | **69,421** | 29,071 | 17,951 |
| Decrease in other non-current assets | 14 | **1,882** | 5,709 | 5,942 |
| Net Cash from Investing Activities | | **(95,728)** | (476,611) | (160,640) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Availment of loan | 16 | **3,732,865** | 1,558,111 | 769,139 |
| Payment of loan | 16 | **(3,360,858)** | (916,000) | (654,247) |
| Payment of finance lease liability | 26 | **(70,797)** | (69,878) | (8,583) |
| Interest paid on leases | 26 | **(3,608)** | (4,223) | (2,575) |
| Decrease in amounts owed to related parties | 17 | **(11,737)** | (8,002) | (61,012) |
| Net Cash from Financing Activities | | **285,865** | 560,008 | 42,722 |
| **NET INCREASE (DECREASE) IN CASH** | | **63,432** | (16,244) | 22,079 |
| **CASH, BEGINNING** | 7 | **49,609** | 65,853 | 43,774 |
| **CASH, END** | 7 | **113,041** | 49,609 | 65,853 |

***See accompanying Notes to the Consolidated Financial Statements***

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2023, 2022 and 2021**
***(Amounts in Philippine Thousand Peso, Unless Otherwise Indicated)***
***(With Comparative Figures as of December 31, 2022)***

## NOTE 1 – GENERAL INFORMATION

Steniel Manufacturing Corporation (STN or the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 13, 1963. The Parent Company and its subsidiaries (the "Group)" are engaged in the manufacturing, processing, and selling of all kinds of paper products, paper board and corrugated carton containers, and all other allied products and processes. The Parent Company is listed in the Philippine Stock Exchange Inc. (PSE).

On September 11, 2013, the SEC approved the Amended Articles of Incorporation of the Parent Company, extending the corporate life for another 50 years from September 13, 2013. With the passage of the Revised Corporation Code of the Philippines ("RCC"), the Company now has perpetual existence.

Following a decision made by the Company's Board of Directors (BOD) in 1996 to reorganize the Group, the Parent Company ceased manufacturing operations in June 1997 due to continuing business losses. As a result, reorganization of the Group was carried out and completed with the Parent Company's principal activity now limited to holding of investments.

Prior to 2006, Steniel (Netherlands) Holdings B.V. ("SNHBV"), a company incorporated in Amsterdam, The Netherlands, owned 82.2716% of the shares of the Company. SNHBV was then 100%-owned by Steniel (Belgium) Holdings NV ("Steniel Belgium"). In 2006, Steniel Belgium sold its shares in SNHBV to certain directors and officers of the Company. With the sale of shares, SNHBV became the ultimate parent company.

Consequent to the restructuring of the loan in 2010, remaining unissued capital stock of the Parent Company totaling 123, 817,953 shares were issued to Roxburgh Investment Limited (Roxburgh) to reduce the Parent Company's outstanding debts (Notes 15 and 16). The issuance of shares resulted to recognition of additional paid in capital. As a result, Roxburgh owns 12.3818% of the Parent Company, while the ownership of SNHBV as well as the public have been reduced to 72.0849% and 15.5333%, respectively.

On January 18, 2012, the shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited (Right Total, a limited liability company incorporated in British Virgin Islands as an investment company), to purchase up to 100% of the issued and outstanding shares of SNHBV. With the sale of shares of SNHBV, Right Total became the owner of the 72.0849% shares of SNHBV consequently making Right Total as the ultimate parent company.

On January 25, 2012, the Parent Company received a tender offer report from SNHBV offering to purchase the 279,151,088 shares of minority investing public or 27.92% of the total issued shares at a price of ₱0.0012 per share or an aggregate price of ₱334.9 million. On February 25, 2012, only a total of 2,115,692 common shares were tendered in the Tender Offer and accepted by SNHBV, constituting 0.0021% of the total outstanding capital stock of the Parent Company. On March 8, 2012, payment for the Tendered Shares was delivered to the relevant broker participants on behalf of interested parties and there was a transfer to SNHBV of only 0.76% of the minority shares. Such accepted tender offer did not significantly change the percentage ownership of the minority investing public.

On June 26, 2019, the Company approved the reacquisition of Steniel Mindanao Packaging Corporation ("SMPC"), as described below, through a share swap transaction involving the transfer of 100% of the outstanding capital stock of SMPC in favor of the Company in exchange for STN shares. The Company also approved the conversion of the loans extended by Greenkraft Corporation ("Greenkraft") and Roxburgh into equity. These approvals were made in view of the need to address the negative capital of the Company.

As part of the preparations for these share issuances, the Board approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On October 7, 2020, Greenkraft Corporation (Greenkraft), Golden Bales Corporation (Goldenbales), Corbox Corporation (Corbox), Rex Chua and Clement Chua, as purchasers (collectively, the Buyers) entered into a Share Purchase Agreement with SNHBV as seller to acquire 649,908,308 common shares of the Parent Company, for a consideration of P64.99 million or P0.10 per share, broken down as follows:

| Buyer | Number of shares | Percentage of Ownership |
|---|---|---|
| Greenkraft Corporation | 216,679,430 | 21.67% |
| Corbox Corporation | 194,972,492 | 19.50% |
| Goldenbales Corporation | 194,972,492 | 19.50% |
| Clement Chua | 21,641,947 | 2.16% |
| Rex Chua | 21,641,947 | 2.16% |
| | 649,908,308 | 64.99% |

In compliance with the Securities and Regulations Code and its Implementing Rules and Regulations, the Buyer Group made a tender offer involving the remaining outstanding shares of the Company, excluding the 70,940,604 common shares of SNHBV not included in the Share Purchase Agreement. The tender offer commenced on October 12, 2020 and ended on November 10, 2020 (Tender Offer Period). A total of 11,780,533 common shares of STN were tendered during the Tender Offer Period, which comprise approximately 1.18% of the total issued and outstanding shares of STN.

Following the completion of the tender offer, SNHBV and the Buyer Group executed the deed of sale on November 23, 2020 involving the 649,908,308 shares of the Company. The relevant taxes were paid and the corresponding CAR was secured. As of the date hereof, the transfer of the 649,908,308 common shares in favor of the Buyer Group has been recorded in the books of STN. The transfer effectively reduced the shareholding of SNHBV to 5% of the Company's outstanding capital stock.

On December 29, 2020, the SEC approved STN's application for increase of authorized capital stock from Php1 Billion to Php2 Billion resulting to the issuance of 418,821,081 common shares in favor of the Buyer Group, Greenkraft and Roxburgh. The increase was (i) partly subscribed by the share swap transaction wherein STN reacquired SMPC in exchange for unissued shares of the STN; and (ii) partly subscribed through conversion of liability into equity.

As at December 31, 2023 and December 31, 2022, SNHBV owns 5% interest in STN.

The Parent Company's registered address and principal office is located at Gateway Business Park, Brgy. Javalera, General Trias, Cavite, Philippines.

Structure

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries incorporated in the Philippines.

| | Percentage of Ownership | |
|---|---|---|
| | 2023 | 2022 |
| Steniel Cavite Packaging Corporation (SCPC)* | 100% | 100% |
| Steniel Mindanao Packaging Corporation (SMPC)** | 100% | 100% |

** Treasure Packaging Corporation (TPC) was merged with SCPC as approved by the SEC on May 30, 2018.*

*** SMPC was reacquired on December 29, 2020*

*Steniel Cavite Packaging Corporation (SCPC)*

SCPC was incorporated and registered with the SEC on November 9, 1993 primarily to engage in the manufacturing, processing and selling of all kinds of paper products and processes.

On June 30, 2006, SCPC's BOD decided to discontinue its packaging operations in view of the continued business losses incurred since its incorporation, in addition to difficult economic and business conditions. SCPC used to purchase, process and resell various paper products and lease its machinery and equipment to generate income, until 2015 when the former was discontinued. On January 10, 2017, the SEC approved the equity restructuring of SCPC which has wiped out the deficit as at December 31, 2016.

TPC was incorporated and registered with the SEC on May 23, 1994 primarily to engage in the manufacturing, processing, purchasing, and selling on wholesale basis, paper, paper rolls, paper boards, cartons, containers, packaging material and other pulp and paper products. The registered office address and principal office of TPC is located at Hernan Cortes Street, Mandaue City, Cebu, Philippines.

On June 15, 2026 and July 8, 2016, SCPC's BOD and Shareholders, respectively, approved the change in its address and principal office at Gateway Business Park, Brgy. Javalera, General Trias, Cavite.

In 2016, the merger between SCPC and TPC (the former as the surviving entity) was approved by the BOD and Shareholders of the respective entities. The application for merger was filed with the SEC on April 10, 2017 and was approved on May 30, 2018.

*Steniel Mindanao Packaging Corporation (SMPC)*

SMPC was incorporated on June 30, 1995 primarily to engage in the business of manufacturing, importing, buying, selling or otherwise dealings in, at wholesale and retail, all kinds of paper, paper rolls, paper boards, cartons, containers, packaging materials and other pulp and paper products.

As at December 31, 2012, SMPC was a wholly-owned subsidiary of the Parent Company. In December 2013, the Parent Company sold its 9,249,995 common shares in SMPC to various entities and individuals.

In 2019, the BOD and Stockholders of the Parent Company approved the reacquisition of shares of SMPC through a share swap transaction wherein all shareholders of SMPC will exchange all their shares in SMPC for shares of the Parent Company. In preparation for these share issuances, the Parent Company's BOD approved the increase of the Company's authorized capital stock from Php1 Billion to Php2 Billion. The same was approved and ratified by the stockholders during the annual stockholders' meeting held on July 17, 2019 and reconfirmed on November 19, 2020.

On December 29, 2020, the Parent Company issued 269,250,000 shares to the shareholders of SMPC effecting the share swap following the SEC approval of the Company's increase in authorized capital stock on the same day. The transfer of the SMPC shares in favor of the Company was subsequently recorded after the relevant CARs were issued by the Philippine Bureau of Internal Revenue ("BIR").

As at December 31, 2023, and December 31, 2022, SMPC is a wholly owned subsidiary of the Parent Company.

The principal place of business of SMPC is located at Km. 25 National Highway, Bunawan District, Davao City.

<u>Debt Restructuring</u>

Due to the working capital drain experienced by the Group as a result of prior debt service payments and the difficult business and economic conditions during the period, the Group found it difficult to sustain further payments of debt while at the same time ensuring continued operations. The Parent Company failed to settle its outstanding short-term and long-term loans which were supposed to mature at various dates in 2004, 2005, and 2006 and was declared by the lending banks in default on May 25, 2006. Subsequently until 2009, the lending banks assigned and sold their respective outstanding loan balances to various third parties. On October 14, 2010, one of the new lenders, Greenkraft Corporation (Greenkraft), further assigned some of its loan receivables to Roxburgh.

After the assignment and sale of loans from the lending banks to third parties, discussions were made with new creditors/lenders to restructure the outstanding loans covered by the Omnibus Agreement which the Parent Company has defaulted in 2006. On October 15, 2010, the Parent Company and the creditors/lenders signed the Amended and Restated Omnibus Agreement (the "Amended Agreement"), which finally resolved the default situation. The essential elements of the Amended Agreement are summarized below:

- The outstanding principal and accrued interest expense as at September 30, 2010 was restructured for 25 years.

- Conditional waiver of penalty and other charges upon the faithful performance by the Parent Company of the terms of restructuring.

- The outstanding principal and accrued interest expense as at September 30, 2010 shall be reduced via dacion en pago or sale of the following properties: (a) all of the outstanding common and preferred shares of stock in Steniel Land Corporation (SLC); (b) identified idle assets of STN and its subsidiaries; and (c) by way of conversion into equity through the issuance of Parent Company's unissued capital stock.

- The outstanding principal amount after the dacion en pago or sale of properties shall be paid in 92 consecutive quarterly installments starting in January 2013.

- The outstanding portion of the accrued interest after equity conversion shall be paid in 40 consecutive quarterly installments starting after year 15 from the date of restructuring.

- Restructured outstanding principal will be subject to interest of 6% per annum for 15 years and 8% per annum on the 16th year onwards.

- The restructured accrued interest expense prior to loan restructuring will be subject to interest of 8% per annum.

- The restructured loan shall be secured by the assets/collateral pool under the Collateral Trust Agreement.

- All taxes and fees, including documentary stamp taxes and registration fees, shall be for the account of the Group.

- All other costs and expenses of restructuring including documentation costs, legal fees and out-of-pocket expenses shall be for the account of the Parent Company; and

- Other conditions include:

    a. Lenders' representative to be elected as director in STN and in each of its subsidiaries.
    b. A merger, reorganization or dissolution of certain subsidiaries in line with the Business Plan.
    c. No dividend declaration or payments until the restructured obligations are fully paid.
    d. No new borrowing, unless with written consent of the lenders.
    e. No repayment of prepayment of any debt or obligation (other than operational expenses), unless with consent of the lenders.
    f. Creditor's consent for change in material ownership in the Group and mortgagors.
    g. Standard covenants, representations and warranties.

Dacion en pago and Equity Conversion

The dacion en pago of the Group's idle machineries, spare parts, and the equity conversion through the issuance of the Parent Company's capital stock have been completed as at December 31, 2010. The dacion en pago transaction reduced the outstanding loan principal amount by ₱122 million while the equity conversion reduced outstanding accrued interest by P248 million.

The dacion en pago relating to the Group's shares in SLC and a subsidiary's land and land improvements and building and building improvements has a total value of ₱290.0 million. In 2012, certain certificates authorizing registration were issued and reduced the total value from ₱290.00 million to ₱289.88 million.

In July 2019, the BOD and Stockholders of the Parent Company approved the conversion of debt into common shares of the Parent Company. Consequently, principal payments on long-term debt was suspended beginning July 2019. On December 29, 2020, the Parent Company issued shares to the lenders effecting the debt-to-equity conversion following the SEC approval of the Parent Company's increase in authorized capital stock on the same day (Notes 15 and 18). The outstanding balance of the borrowings were reduced by ₱149.56 million as a result of the debt-to-equity conversion.

In September 2023, the dacion en pago was completed relating to the Group's shares in SLC. The Group assigned its shares in SLC to Greenkraft as payment to its remaining balance of borrowings to Greenkraft amounting to ₱190,000. As of September 30, 2023, the Group has fully-settled its borrowings to Greenkraft.

Restructuring of Subsidiaries

In 2011, following the provisions in the Amended Agreement, the Parent Company filed a merger application with the SEC to absorb TPC. On August 12, 2013, following management's assessment, the Board of STN and TPC approved the withdrawal of the merger application filed with SEC as the same no longer appears feasible. Management has been instructed to explore other options, i.e., merger of or with other subsidiaries.

In addition, SCPC submitted a merger application with SEC in October 2011 to absorb three (3) dormant subsidiaries: (a) Metroplas Packaging Products Corporation (MPPC), (b) Metro Paper and Packaging Products, Inc. (MPPPI) and (c) Steniel Carton System Corporation (SCSC) using June 30, 2011 financial statements. On March 2, 2012, the SEC approved the certificate of filing of the articles and plan of merger, which documents were received by SCPC on July 31, 2012. All financial information presented for the periods prior to the merger has been restated to reflect the combined financial statements of the absorbed corporation as though the merger had occurred at the beginning of 2010.

The Parent Company also has a 39.71% direct and indirect (through SCPC & TPC) interest in SLC. In 2010, all of the ownership interest of TPC and STN was assigned to Greenkraft, and the remaining interest of SCPC in SLC is 29.21% as of December 31, 2022. As at December 31, 2022, Greenkraft holds 70.77% interest in SLC while the remaining interest of SCPC is 29.21%.

In September 2023, the dacion en pago was completed relating to the Group's shares in SLC. The Group assigned its 727,050 preferred shares in SLC to Greenkraft to fully settle its remaining balance of borrowings to Greenkraft amounting to ₱190 million.

Interest Payments

On December 2, 2011, the current creditors/lenders agreed to waive the payment of interest for the first two (2) years of the loan commencing on the restructuring date, to correspond to the principal repayment as stated in the Amended Agreement. Hence, interest payments shall be made in accordance with the Amended Agreement but shall commence on the 27th month after the restructuring date, inclusive of a two (2) year grace period. In relation to this, on March 1, 2012, the accrued interest which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was also condoned by its major creditors effective December 31, 2011.

In 2013, due to continuous working capital drain experienced by the Group as a result of difficult economic and business conditions, the Group requested reconsideration to defer the implementation of the loan agreement from the creditors which was acted favorably. The Group was granted another two (2) years extension of principal repayment, reduction of interest rate from 6% to 2% for the first five (5) years and further waive interest charges annually until 2019. Consequent to the BOD approval of the conversion of debt to common shares of the Parent Company in 2019, principal and interest payments on long-term debt was suspended beginning July 2019.

Status of Operations

The Group has temporarily ceased its principal operations and has incurred recurring losses in prior years resulting to a deficit of ₱942 million and ₱1,070 million as at December 31, 2023 and 2022, respectively.

To improve this condition, the management has taken the following measures:

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the acquisition of shares of SMPC through a share swap transaction and the conversion of loans from Greenkraft Corporation and Roxburgh Investments Limited into common shares in the Parent Company. To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the Articles of Incorporation to increase the authorized capital stock from P1 billion, divided into one billion common shares to P2 billion, divided into two billion common shares with par value of P1 per share (Notes 15 and 18).

On December 29, 2020, upon the SEC's approval of the Parent Company's increase in authorized capital stock, the Parent Company issued shares to the lenders effecting the debt-to-equity conversion thereby reducing the outstanding balance of the borrowings by P149.56 million. Further, The Parent Company also issued shares to the shareholders of SMPC effecting the share swap transaction resulting to a gain of P267.459 million from the acquisition of a subsidiary (Note 5). The realization of these transactions resolved the capital deficiency position of the Group.

Based on the foregoing, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in existence.

## NOTE 2 - BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

### ***2.1 Statement of compliance***

The accompanying audited consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS, issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations.

The accompanying consolidated financial statements of the Group as at December 31, 2023 (including comparative amounts as at December 31, 2022 and 2021) were approved and authorized for issuance by the Board of Directors on April 19, 2024.

### ***2.2 Basis of measurement***

The consolidated financial statements of the Group have been prepared on a historical cost basis except for investment in equity securities which are carried at fair value and retirement benefits liability – net which is measured at present value of defined benefits obligation less fair value of plan assets.

### ***2.3 Functional and presentation currency***

The consolidated financial statements are presented in Philippine peso (₱), which is the functional currency of the Group. All financial information expressed in Philippine peso is rounded off to the nearest thousand peso, except when otherwise indicated.

### ***2.4 Basis of consolidation***

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. In accordance with PFRS 10, *Consolidated Financial Statements*, the Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

### *2.5 Business combinations*

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 Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in 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. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PFRS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transactions with non-controlling interests
The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests results in gains and losses for the Group that are also recognized in equity.

Loss of control and disposal of subsidiaries
When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over the subsidiary, it:

- derecognizes the assets, including goodwill, and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interest
- derecognizes the cumulative transaction differences recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of the any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognized in OCI to profit or loss retained earnings, as appropriate.

### *2.6 Use of judgment and estimates*

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Group's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Group significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in Note 4.

### *2.7 Adoption of new and revised accounting standards*

The Group's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements:

**New and Amended Accounting Standards Effective in 2023**

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 beginning on or after January 1, 2023

*Amendments to PAS 1, Classification of Liabilities as Current or Non-current* – the amendments provide a more general approach to the classification of liabilities under PAS 1 based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. To:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

*Amendments to PFRS 17, Insurance Contracts* – the amendments' purpose is to address concerns and implementation challenges that were identified after PFRS 17 'Insurance Contracts' was published in 2017. The main changes are: deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023; additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk; recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination; extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives; amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held; simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts; and several small amendments regarding minor application issues.

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The amendments are not expected to have a significant impact on the preparation of consolidated financial statements.

*Disclosure of Accounting Policies (Amendments to PAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgements),* continues the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include:

- requiring companies to disclose their material accounting policies instead of their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material.

The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

*Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors),* clarifies how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively.

The amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

PAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific PFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, Income Taxes),* clarifies how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

PAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

**New and Amended Standards Effective Subsequent to 2023 but not Early Adopted**

Pronouncements issued but not yet effective as at December 31, 2023 are listed below. The Group intends to adopt the following pronouncements when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new pronouncements to have a significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2024

*Lease Liability in a Sale and Leaseback (Amendments to PFRS 16)*
The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognized no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Under PAS 8, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of PFRS 16.

*Classification of Liabilities as Current or Noncurrent – 2020 amendments and Non-Current Liabilities with Covenants – 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements).*
To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

- Removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead required that the right must have substance and exist at the end of the reporting period;
- Clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
- Provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and
- Clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retained application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

Effective beginning on or after January 1, 2025

*PFRS 17, Insurance Contracts*
PFRS 17 replaced the interim standard, PFRS 4, Insurance Contracts. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering that fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

(a) Combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
(b) Presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
(c) Requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfillment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfillment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measure using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. These is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 Financial Instruments on or before the date of initial application of PFRS 17.

The standard is not expected to have significant impact on the Group's financial reporting.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all years presented unless otherwise stated.

### ***3.1 Financial assets and financial liabilities***

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Assets**

*Initial Recognition and Measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are "solely payments of principal and interest ("SPPI")" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business Model and SPPJ Test

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How employees of the business are compensated; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date i.e. the date that the Group commits to purchase or sell the asset.

*Subsequent Measurement*

For purposes of subsequent measurement, financial assets are classified in to 4 categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

*Financial Assets at Amortized Cost (Debt Instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

*Financial Assets at FVOCI (Debt Instruments)*

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income (OCI). Upon de-recognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

*Financial Assets at FVOCI (Equity Instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, Financial Instruments: Presentation and Disclosure, are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

*Financial Assets at FVPL*

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified as amortized cost or at FVOCI, as described above, debt instruments may be designated as FVPC on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in profit or loss.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognized (i.e. removed from the Group's consolidated statements of financial position) when:

- The rights to receive cash flows from the asset has expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

For a modification that does not result in derecognition, the difference between the present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows, is recognized in profit or loss as a gain or loss from modification. Costs or fees in relation to the modification of the financial asset are recognized as part of the carrying amount of the asset and amortized over the remaining term of the instrument. A modification of the original financial asset that results in the derecognition of the financial asset, requires the recognition of a new financial asset in line with the general requirements for the initial recognition (i.e. at fair value plus transaction costs).

*Impairment of Financial Assets*

The Group recognizes an allowance for Expected Credit Losses (ECLs) for all financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or credit enhancements that are integral to the contractual terms.

ECLs are recognized under either a simplified or general approach, dependent on the nature of the related financial asset.

Under the general approach, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. 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 financial instruments with low credit risk such as cash in banks, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the financial instrument or the counterparty. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 180 days past due.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Financial Liabilities**

*Initial Recognition and Measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially recognized at fair value and, in the case of loans and borrowings and payables, net of directly attributable costs.

*Subsequent Measurement*

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered in to by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liabilities at FVPL.

Loans Payable

After initial recognition, interest-bearing loans payable are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking in to account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

*Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

*Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and liabilities simultaneously.

Fair Value Measurement

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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 prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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.

As at December 31, 2023 and 2022, no financial asset was recognized at fair value. The Group has no other assets or liabilities with recurring and non-recurring fair value measurements.

**Business Combination**

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling _ interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Operating expenses" account in the consolidated statements of comprehensive income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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 at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of comprehensive income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of comprehensive income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of comprehensive income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

Goodwill in a Business Combination

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment determined in accordance with PFRS 8, Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units 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. An impairment loss with respect to goodwill is not reversed.

***3.2 Current versus non-current classification***

The Group presents assets and liabilities in the statement of financial position based on current/noncurrent classification.

An asset is current when:
- It is expected to be realized or intended to be sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period, or
- Cash on hand and in banks unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

***3.3 Foreign currency transactions and translation***

Transactions in foreign currencies are initially recorded by the Group at the respective functional currency rates prevailing at the date of the transaction.

Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statements of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits applicable to exchange differences on these monetary items are also recorded in the OCI.

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

### *3.4 Operating Segments*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee (ExeCom), its chief operating decision-maker. The ExeCom is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's main service lines as disclosed in Note 7, which represent the main services provided by the Group.

Each of these operating segments is managed separately as each of these service lines require different resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, Operating Segments, are the same as those used in its consolidated financial statements.

There have been no significant changes from prior periods in the measurement methods used to determine reported segment profit or loss.

### *3.5 Cash*

Cash consists of cash on hand and in banks. Cash in banks earns interest at respective bank deposit rates. For the purpose of reporting cash flows, cash in banks is unrestricted and available for use in current operations.

### *3.6 Receivables*

Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statements of comprehensive income when the receivables are derecognized or impaired, as well as through the amortized process.

### *3.7 Inventories*

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value (NRV). Cost is calculated using the weighted average method. NRV represents the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When the NRV of the inventories is lower than the cost, the Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are used and sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

### *3.8 Assets held for sale*

Assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered primarily through a sale transaction rather than continuing use. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the cost to sell that arises from the passage of time shall be presented as part of the operating expenses in profit or loss.

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. The Group recognizes a gain for any subsequent increase in fair value less costs to sell of an asset, not in excess of the cumulative impairment loss that has been recognized.

Once classified as held-for-sale, property and equipment are no longer amortized or depreciated and any equity-accounted investee is no longer equity accounted.

When changes to the plan of sale are made and the Group ceases to classify the asset as held-for-sale, the Group remeasures the asset at the lower of its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held-for-sale, and its recoverable amount at the date of the subsequent decision not to sell. Gain or loss recognized on measurement of a non-current asset classified as held-for-sale is presented under the operating income (expense) in the consolidated statements of comprehensive income.

An item of asset held-for-sale is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of asset held-for-sale (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

### *3.9 Prepayments and other current assets*

This account comprises of prepayments, prepaid taxes and input taxes. Prepayments are expenses paid in advance and recorded as assets before they are utilized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets; otherwise, these are classified as other noncurrent asset.

Prepaid taxes pertain to the amount withheld by suppliers which can be applied against income tax due. It is carried at face value less allowance for unrecoverable tax credits. The Group maintains an allowance for the amount which can no longer be claimed or applied against income tax due.

### *3.10 Property and equipment*

Property and equipment, except land, are recorded at cost less accumulated depreciation, and impairment losses, if any. The initial cost of property and equipment consists of its purchase, including import duties taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Land is stated at cost less any impairment in value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to profit or loss during the period in which these are incurred.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of qualifying property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commences when the assets are available for its intended use, are calculated using the straight-line method over its estimated useful life as follows:

| | Number of years |
|---|---|
| Machinery and equipment | 3 to 10 years |
| Leasehold improvement | 2 to 10 years or lease term, whichever is shorter |
| Transportation equipment | 3 to 5 years |
| Furniture, fixtures and equipment | 3 to 5 years |

The asset's residual values, estimated useful lives and depreciation method are reviewed periodically, and adjusted if appropriate, at each reporting date to ensure that method and period of depreciation and are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of comprehensive income in the period of retirement and disposal.

### ***3.11 Other assets***

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other assets are classified in the statements of financial position as current assets when the cost of goods or services related to the assets are expected to be incurred within one year or the Company's normal operating cycle, whichever is longer.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as noncurrent assets.

### ***3.12 Impairments of non-financial assets***

*General*
The carrying amounts of prepaid expenses and other current assets, asset held-for- sale, right-of-use asset and property and equipment, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such 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 its remaining useful life.

### ***3.13 Employee benefits***

*Short-term Employee Benefits*
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits*

The Group is covered by a noncontributory defined benefits retirement plan. The net retirement benefits liability or asset is the aggregate of the present value of the defined benefits obligation at the end of the reporting period reduced by the fair value of plan assets.

Retirement benefits costs comprise the following:

*Service cost*
Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

*Net interest on the net defined benefits liability or asset*
Net interest on the net defined benefits liability or asset is the change during the period in the net defined benefits liability or asset that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefits liability or asset. Net interest on the net defined benefits liability or asset is recognized as expense or income in profit or loss.

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

When the benefits of a plan are changed, or when a ptan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefits retirement plan when the settlement occurs.

***3.14 Borrowings***

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### ***3.15 Borrowing costs***

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

### ***3.16 Revenue recognition***

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs 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 Group and the Group has an enforceable right to payment for performance completed to date.

Revenue from contracts with customers

The Group is principally engaged in the business of producing paper-based products. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

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

*Revenue from Product Sales*
The Group manufactures and sells a wide range of paper, cartons and packaging materials in the domestic and international markets. Revenue from product sales is recognized at the point in time when control of the goods is transferred to the buyer, which is normally upon delivery of the goods. Trade discounts are determined at inception of the contract and is not subject to variability. Returns do not result to significant variable consideration. The general payment terms with customers are cash upon order and credit terms which generally ranges from 30 to 90 days from invoice date.

*Variable Consideration - Discounts*
In the normal course of business, the Group provides incentives such as discounts to customers which are typically considered in the determination of consideration or prices to be charged to the customers of the date of transaction. There are no variable consideration that is dependent upon fulfillment of certain conditions in the future that may result to reversal of revenue.

*Service Income*
Service income represents revenue from tolling and is recognized over time, which is upon rendering of services to a customer through processing of the raw materials into finished goods, to which the customer simultaneously receives and consumes the benefits provided by the Group. Revenue is measured based on customer-approved output per month.

*Rental Income*
Rental income arising from certain machinery and equipment is accounted for on a straight-line basis over one year. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

*Interest Income*
Interest income on bank deposits, net of withholding tax, and other income are recorded when earned.

*Other Income*
Revenue is recognized when earned.

Contract balances

*Receivable from customers*
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract assets*
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

*Contract liabilities*
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due, whichever is earlier. Contract liabilities are recognized as revenue when the Group performs under the contract.

### ***3.17 Cost and expenses recognition***

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized when incurred are presented in profit or loss using function of expense method.

### ***3.18 Related party transactions and relationship***

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise 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 enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Related parties may be individuals or corporate entities.

Due to/from related parties are non-interest-bearing borrowings. These are measured initially at their nominal values and subsequently recognized at amortized costs less settlement payments.

### ***3.19 Equity***

Share capital is measured at par value for all shares issued. When the shares are sold out at a premium, the difference between the proceeds and the par value is credited to the "Share Premium" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called "deficit", and presented as a deduction from equity.

Dividends are recognized when they become legally payable. Dividend distribution to equity shareholders is recognized as liability in the Group's financial statements in the period in which the dividends are declared and approved by the Group's Board of Directors.

### ***3.20 Income taxes***

*Current income tax*
Current income tax assets and liabilities for the current period is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*
Deferred tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for reporting purposes.

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and at the time of the transaction, affects neither the accounting profit nor taxable profit (or loss).

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle the liabilities simultaneously.

### *3.21 Value added taxes (VAT)*

Revenues, expenses, and assets are recognized net of the amount of VAT except:

- Where the sales tax incurred on a purchased of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

### *3.22 Leases*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in PFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

*Group as Lessor*

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15, Revenue from Contracts with Customers to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

*Group as a Lessee*

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

i. ROU Asset

The Group recognizes a ROU asset (i.e., the date the underlying assets is available for use) at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the ROU asset reflects that the Group will exercise a purchase option. In that case, the ROU asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

ii. Lease Liability

At commencement date, the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero. In the case of modification that is not accounted for as a separate lease and which decreases the scope of the lease, the carrying amount of the ROU asset is decreased to reflect partial or full termination and any gain or loss is recognized in profit or loss. A tease modification is accounted for as a separate lease if it adds the ROU to one or more underlying assets and the increase in consideration is commensurate with the stand-alone selling price for the increase in scope and any appropriate adjustments to reflect circumstances of the contract.

iii. Short-term Leases and Lease of Low-value Assets

The Group has elected not to recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

***3.23 Provisions and contingencies***

*Provisions*

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

*Contingencies*

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

### ***3.24 Operating Segments***

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

SCPC is the only operating subsidiary of STN prior to the acquisition of SMPC. SCPC's activity after it ceased its packaging operations in 2006 is limited to leasing of properties. SMPC, on the other hand, was acquired on December 29, 2020. As such, SMPC's results of operations in 2020 were considered as pre-acquisition and were not consolidated in the consolidated statements of comprehensive income. Given the foregoing, SCPC's leasing business with SMPC represents the only reportable segment of the Group in 2020 and 2019. Following the acquisition of SMPC in 2020, the Group has only one business segment which is related to SMPC's packaging business.

### ***3.25 Earnings per share (EPS) attributable to equity holders***

Basic EPS is calculated by dividing the profit attributable to the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding and assume conversion of all dilutive potential ordinary shares.

If the number of ordinary or potential shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted EPS for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

The Group has no dilutive potential common shares outstanding.

### ***3.26 Events after the end of the reporting period***

Post year-end that provides additional information about the Group’s position at the balance sheet date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

## NOTE 4 – MANAGEMENT’S USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

*Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the sales price of services of the Group and the costs of providing these services.

*Operating Lease Commitments - Group as Lessor*. The Group has entered into an operating lease agreement as a lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on the operating lease.

Rent income recognized in profit or loss amounted to nil, ₱5.38 million, and nil in 2023, 2022 and 2021, respectively.

*Incremental Borrowing Rate on Leases.* The Group cannot readily determine the interest rate implicit in the leases. Therefore, it uses its relevant incremental borrowing rate to measure lease liabilities.

The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific estimates.

The Group's lease liabilities amounted to ₱22.215 million, and ₱27.55 million, as at December 31, 2023, and 2022, respectively.

*Determining the Lease Term of Contracts with Renewal Options - Group as Lessee*
The Group has a lease contract that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

*Classification of Financial Instruments*. The Group exercises judgments in classifying financial instrument or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 6.

*Business Model.* The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to the management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Company's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

*Cash Flow Characteristics - Payments of Principal and Interest.* For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

The Group determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as at December 31, 2023, and 2022.

*Determining whether the Group is Acting As a Principal or Agent in a Revenue Transaction*. The determination of whether the Group acts as a principal or agent in a contract is made by identifying each specified service promised to the customers in the contract and evaluating whether the Group obtains control of the specified service before it is transferred to the customer.

The Group determined that it acts as a principal in its revenue transactions.

*Measurement of Fair Values.* A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The fair values of the Company's financial instruments are disclosed in Note 6.

<u>Estimates and Assumptions</u>
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Acquisition Accounting.* At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired assets as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets, if any, and property and equipment have to be determined.

Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has determined that the acquisition of SMPC represents a business due to the presence of the integrated set of activities acquired.

In 2020, the Group recognized a gain amounting to ₱267.46 million resulting from the acquisition of SMPC. (Note 5)

*Assessment of ECL Allowance on Receivables.* The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Group has assessed that the forward-looking default rate component of its ECL on receivables are not material because substantial amount of receivables has been collected. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its receivables.

Allowance for impairment losses in receivables amounted to ₱77.523 million as at December 31, 2023, and 2022. The carrying amounts of receivables amounted to ₱852.71 million and ₱861.27 million as at December 31, 2023, and 2022, respectively. (Note 8)

*Assessment for ECL on Other Financial Assets at Amortized Cost.* The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks. Accordingly, no additional provision of ECL on other financial assets at amortized cost was recognized in 2023 and 2022. The carrying amounts of other financial assets at amortized cost are as follows:

| | **2023** | 2022 |
|---|---|---|
| Cash in banks | ₱ **112,951** | ₱ 49,519 |
| Receivables – net | **852,708** | 861,271 |
| Refundable security deposits | **13,099** | 8,611 |
| | ₱ **978,758** | ₱ 919,401 |

*Estimating Allowance for Inventory Obsolescence.* The Group's inventories are written down to their net realizable value (NRV) whenever their NRV fall below carrying amounts due to physical damage, obsolescence or adverse changes in prices. In determining NRV, management considers estimated selling price of inventories less the estimated costs of completion and the estimated costs necessary to make the sale.

Allowance for inventory obsolescence amounted to ₱26.819 million as at December 31, 2023, and 2022.

The carrying amount of inventories amounted to ₱2,040.58 million, and ₱1,888.46 million as at December 31, 2023, and 2022, respectively.

*Estimation of Useful Lives of Property and Equipment*
The Groups estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded costs and expenses and decrease noncurrent assets.

There was no change in the estimated useful lives of property and equipment in 2023 and 2022.

The carrying amount of the Group’s property and equipment amounted to ₱775.385 and ₱873.32 million as at December 31, 2023, and 2022, respectively.

*Determination of Impairment on Nonfinancial Assets*
FRS requires that an impairment review be performed on prepaid expenses and other current assets, asset held-for-sale, right-of-use asset and property and equipment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Based on the assessment of the Group, certain nonfinancial assets are to be provided with allowance for impairment.

Allowance for impairment losses on advances to suppliers amounted to ₱1.843 million as at December 31, 2023, and 2022.

Allowance for impairment losses on asset held-for-sale amounted to ₱199.958 million as at December 31, 2023, and 2022.

No impairment loss was recognized on right-of use assets and property and equipment as at December 31, 2023, and 2022.

*Present Value of Defined Benefit Retirement Obligation.* The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in note to the financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

As at December 31, 2023, and 2022, retirement benefits liability amounted to ₱13.940 million and ₱9.90 million, respectively. Retirement benefits expense amounted to ₱4.036 million, ₱1.36 million, and ₱1.45 million in 2023, 2022, and 2021, respectively. (Note 25)

*Estimation of Realizability of Deferred Tax Assets*
The Group reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry-forward benefits of NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounting to ₱24.325 million and ₱24.235 million as at December 31, 2023, and 2022, respectively, related to the acquired deferred tax assets of SMPC. Deferred tax assets of STN and SCPC have not been recognized as at December 31, 2023 and 2022 because management believes that it is not probable that future taxable profit will be available against which the deferred tax assets may be utilized (Note 24).

*Provisions and Contingencies*
The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

The Group has not recognized any provisions in 2023 and 2022.

## NOTE 5 – BUSINESS COMBINATION

On December 29, 2020, the Group acquired 269,250,000 shares of SMPC, representing 100% equity interest in SMPC, in exchange for the 269,250,000 shares of stock of the Parent Company, issued at par value of ₱1.

The following summarizes the recognized provisional and final amounts of assets acquired and liabilities assumed at acquisition date:

| | Provisional Amount | Fair Value Adjustment | Final Amount |
|---|---|---|---|
| **Assets** | | | |
| Cash | ₱ 34,257 | ₱ - | ₱ 34,257 |
| Receivables | 336,333 | - | 336,333 |
| Inventories | 671,367 | - | 671,367 |
| Prepaid expenses and other current assets | 27,822 | - | 27,822 |
| Property and equipment | 323,705 | 155,924 | 479,629 |
| Right-of-use asset | 5,767 | 86 | 5,853 |
| Advances to third parties | 1,060 | - | 1,060 |
| Deferred tax assets | 19,779 | - | 19,779 |
| Input value-added taxes | 12,847 | - | 12,847 |
| Refundable security deposits | 1,343 | - | 1,343 |
| | ₱ 1,434,280 | ₱ 156,010 | ₱ 1,590,290 |
| **Liabilities** | | | |
| Trade payables and other current liabilities | ₱ 537,866 | ₱ - | ₱ 537,866 |

| | | | |
|---|---|---|---|
| Loans payable | 346,247 | - | 346,247 |
| Amounts owed to related parties | 108,653 | - | 108,653 |
| Lease liabilities (including current portion) | 6,283 | (217) | 6,066 |
| Income tax payable | 114 | - | 114 |
| Deferred tax liability | - | 46,777 | 46,777 |
| Retirement benefits liability | 7,858 | - | 7,858 |
| | 1,007,021 | 46,560 | 1,053,581 |
| Total identifiable net assets | ₱ 427,259 | ₱ 109,450 | ₱ 536,709 |

Provisional and final gain as a result of the acquisition of a subsidiary follows:

| | Provisional Amount | Fair Value Adjustment | Final Amount |
|---|---|---|---|
| Consideration transferred: | | | |
| Capital stock | ₱ 269,250 | ₱ - | ₱ 269,250 |
| Total identifiable net assets | 427,259 | 109,450 | 536,709 |
| Gain on acquisition | ₱ 158,009 | ₱ 109,450 | ₱ 805,959 |

As a result of adjustments to correct the fair values of properties and equipment acquired, the resulting gain in acquisition increased by ₱109.450 million. Accordingly, the gain on the acquisition of SMPC amounted to ₱267.459 million and recognized as "Gain in acquisition of a subsidiary" in the 2020 consolidated statement of comprehensive income.

Since SMPC was acquired on December 29, 2020, SMPC's results of operations in 2020 were considered as pre-acquisition. For the year ended December 31, 2020, the consolidated revenues and net income of the Group would have increased by ₱1,276.50 million and ₱15.94 million, respectively, had the acquisition been completed at the beginning of the reporting period.

*Receivables*
The fair value of receivables amounted to ₱336.333 million. The gross amount of Receivables is ₱344.980 million, of which ₱8.646 million is expected to be uncollectible as at the acquisition date.

*Acquisition-related Costs*
The Group incurred acquisition-related costs of ₱5.800 million and ₱2.021 million for the years ended December 31, 2021 and 2020, respectively, which have been included in the "Operating expenses" account in the consolidated statements of comprehensive income.

## NOTE 6 – FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

Objectives and Policies

The Group's financial assets and liabilities, comprising mainly of cash in banks, receivables, investments in equity instruments, refundable security deposits, trade payables and other current liabilities, amounts owed to related parties, lease liabilities and loans and borrowings, are exposed to a variety of financial risks: liquidity risk, credit risk and market risk (includes foreign currency risk, and interest rate risk). Management ensures that it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Group's financial performance.

Risk management is carried out through the policies approved by the BOD. They identify and evaluate financial risk. The BOD provides principles on overall risk management and on specific areas such as liquidity risk, credit risk and market risk.

Liquidity Risk

Liquidity risk pertains to the failure of the Group's to discharge its obligations and commitments. The tight cash position limits its obligation to take advantage of increasing demands. The Group's financial liabilities include trade payables and other current liabilities, amounts owed to related parties, lease liabilities and loans and borrowings.

The Group regularly monitors its cash position, continuously negotiates with creditors for new credit terms and depends on the financial support from its operating subsidiary and shareholders to meet its obligation as they fall due.

In December 2020, significant amount of the Group's borrowings were converted into equity. The remaining assets subject to dacion en pago under the provisions of the Amended Agreement pertain to investment in preferred shares of SLC with fair value of ₱190 million with reference to the municipality zonal value of land owned by SLC. In 2023, this transaction was completed and the balance of borrowings was paid in full.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from deposits with banks and receivables. Cash transactions are limited to high-credit-quality financial institutions.

The Group has established controls and procedures in its credit policy to determine and monitor the credit worthiness of its counterparties. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

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

| Particulars | | 2023 | | 2022 |
|---|---|---|---|---|
| Cash in banks | ₱ | **112,951** | ₱ | 49,519 |
| Receivables | | **852,708** | | 861,271 |
| Refundable security deposits | | **13,099** | | 8,611 |
| Total | ₱ | **978,758** | ₱ | 919,401 |

The credit risk for cash in banks is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterpatÿ. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any.

The Group does not execute any credit guarantee in favor of any counterparty.

*Cash in Banks*
Cash in banks are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash in banks has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its cash in banks have low credit risk based on the external credit ratings of its counterparties.

*Receivables*
The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence credit risk of the Group's customer base.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

*Refundable Security Deposits*
Deposits on property leased by the Group are generally refundable at the end of the term. The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information, management consider the credit quality of refundable deposits to be good.

*Credit Quality and Expected Credit Loss Assessment*
In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and. potential business dealings with the Group.

The table below shows the credit quality of the Group’s financial assets as at:

| **2023** | **High Grade** | **Medium Grade** | **Low Grade** | **Total** |
|---|---|---|---|---|
| Cash in banks | ₱ **112,951** | ₱ **-** | ₱ **-** | ₱ **112,951** |
| Trade and other receivables | **-** | **775,185** | **77,523** | **852,708** |
| Refundable deposits | **-** | **13,099** | **-** | **13,099** |
| **Totals** | ₱ **112,951** | ₱ **788,284** | ₱ **77,523** | ₱ **978,758** |

| 2022 | High Grade | Medium Grade | Low Grade | Total |
|---|---|---|---|---|
| Cash in banks | ₱ 49,519 | ₱ - | ₱ - | ₱ 49,519 |
| Trade and other receivables | - | 783,748 | 77,523 | 861,271 |
| Refundable deposits | - | 8,611 | - | 8,613 |
| Totals | ₱ 49,519 | ₱ 792,359 | ₱ 77,523 | ₱ 919,403 |

The Group classifies its receivables into the following credit grades:

High Grade – This pertains to accounts with a very low probability of default as demonstrated by the customer/debtor long history of stability, profitability and diversity. The customer/debtor has the ability to raise substantial amounts of funds through the public markets. The customer/debtor has a strong debt service record and a moderate use of leverage.

Medium Grade – The customer/debtor has no history of default. The customer/debtor has sufficient liquidity to fully service its debt over the medium term. The customer/debtor has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The customer/debtor reported profitable operations for at least the past 3 years.

Low Grade – The customer/debtor is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. Operating performance could be marginal or on the decline. The customer/debtor may have a history of default in interest but must have regularized its service record to date.

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

| | Financial Assets at Amortized Cost | | | |
|---|---|---|---|---|
| **December 31, 2023** | **12-month ECL** | **Lifetime ECL- not credit impaired** | **Lifetime ECL- credit impaired** | **Total** |
| Cash in banks | ₱ **112,951** | ₱ **-** | ₱ **-** | ₱ **112,951** |
| Receivables | **-** | **775,185** | **77,523** | **852,708** |
| Refundable security deposits | **11,362** | **1,737** | **-** | **13,099** |
| Total | ₱ **124,313** | ₱ **776,922** | ₱ **77,523** | ₱ **978,758** |

| | Financial Assets at Amortized Cost | | | |
|---|---|---|---|---|
| December 31, 2022 | 12-month ECL | Lifetime ECL- not credit impaired | Lifetime ECL- credit impaired | Total |
| Cash in banks | ₱ 49,519 | ₱ - | ₱ - | ₱ 49,519 |
| Receivables | - | 783,748 | 77,523 | 861,271 |
| Refundable security deposits | 4,992 | 3,619 | - | 8,611 |
| Total | ₱ 54,511 | ₱ 787,367 | ₱ 77,523 | ₱ 919,401 |

The Group believes that the unimpaired amounts are past due by more than 60 days are still collectible based on historical payment behavioral analyses of the underlying counterparties' credit ratings.

*Credit Risk Concentration*

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers as at December 31, 2021. However, in 2023 and 2022, a customer accounted for more than 30% of the total revenues and receivables. The Group does not execute any credit guarantee in favor of any counterparty.

Market Risk

Market risk is the risk that the changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Foreign Currency Risk*

Foreign currency risk is the risk that the values of the financial assets and financial liabilities will fluctuate due to changes in foreign exchange rate. The Group's exposure to foreign exchange risk results from its business transactions and assets and liabilities denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

| Particulars | | 2023 USD | | 2023 Peso equivalent |
|---|---|---|---|---|
| Cash in banks | $ | **915** | ₱ | **50,649** |
| Receivables – net | | **6,134** | | **339,507** |
| Refundable security deposits | | **-** | | **-** |
| Total | $ | **7,049** | ₱ | **390,156** |

**Exchange rate used is USD1=₱55.35 as of December 31, 2023*

| Particulars | | 2022 USD | | 2022 Peso equivalent |
|---|---|---|---|---|
| Cash in banks | $ | 412 | ₱ | 23,132 |
| Receivables – net | | 9,650 | | 541,556 |
| Refundable security deposits | | (2,000) | | (112,240) |
| Total | $ | 8,062 | ₱ | 452,448 |

**Exchange rate used is USD1=₱56.12 as of December 31, 2022*

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax.

| | | Appreciation/ Depreciation of foreign currency | | Effect on Income Before tax |
|---|---|---|---|---|
| US Dollar | **2023** | **+1%** | ₱ | **8,062** |
| | | **-1%** | | **(8,062)** |
| | 2022 | +1% | | 452,448 |
| | | -1% | | (452,448) |

The analysis above is based on the forecasted foreign currency exchange rate to be reasonably possible at end of the next reporting period.

*Interest Rate Risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to interest rate risk relates primarily to the Group's loans and borrowings. The Group's exposure to changes in interest rates relates mainly to the long-term loan drawn from a local bank in 2021 with a floating interest rate based on the prevailing market rate at each repricing date. The Group's short-terms loans have fixed interest rates over the term of the loan.

*Share Price Changes of Investments in Equity Instruments*

The Group has investments in equity instruments traded in the Philippine Stock Exchange and are exposed to share price changes. Share price changes of investments in equity instruments arises from future commercial transactions and recognized assets and liabilities.

The following table demonstrates the sensitivity to a reasonably possible change in the fair value of investments in equity instruments, with all other variables held constant:

| | Effect on Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2023** | | | | 2022 | | | |
| | **3% Increase** | | **3% Decrease** | | 1% Increase | | 1% Decrease | |
| Investment in equity instruments | ₱ | **4,226** | ₱ | **(4,226)** | ₱ | 2,238 | ₱ | (2,238) |

Fair Value Estimation of Financial Assets and Liabilities

*Cash in Banks and Receivables.* The carrying amounts of cash in banks and receivables approximate fair values due to the relatively short-term maturities of these financial instruments.

*Investments in Equity Instruments.* The fair value of quoted investments in equity instruments is determined by reference to their quoted bid prices at the reporting date (Level 1). The fair values of golf shares and country club memberships are based on cost since there is no realizable basis for fair value.

The Group does not have financial assets classified under Level 2 and 3.

*Refundable Security Deposits.* The carrying amount of refundable security deposits approximate the fair value, since the Group does not anticipate the carrying amount to be significantly different from the actual value that these deposits would be eventually collected.

*Trade Payables and Other Current Liabilities, Amounts Due to Related Parties and Current Portion of Loans and Borrowings.* The carrying amounts of trade payables and other current liabilities, amounts owed to related parties and current portion of borrowings approximate fair value due to the relatively short-term maturities of these financial instruments.

*Borrowings, Net of Current Portion*. Borrowings, net of current portion are reported at their present values, which approximate the cash amounts that would fully satisfy the obligations as of reporting date. The carrying amount of long-term loans payable with floating interest rate with monthly repricing approximates its fair value.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total liabilities. While equity is total equity as shown in the consolidated statements of financial position. The Parent Company being a listed entity is covered by the PSE requirement of 10% minimum public ownership. The Parent Company is under suspended trading status in PSE since 2006 pursuant to the PSE's Implementing Guidelines for Companies under Corporate Rehabilitation when the Company notified the PSE in a disclosure that the stockholders have approved entering into rehabilitation proceedings (Note 1).

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capitalization requirements.

The Group monitors its financial leverage using the debt-to-equity which is computed as total liabilities divided by total equity as shown in the table below:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Total liabilities | ₱ | **3,367,424** | ₱ | 3,363,984 |
| Total equity | | **890,983** | | 754,245 |
| Debt-to-equity ratio | | **3.7794:1** | | 4.4600:1 |

## NOTE 7 – CASH

The account consists of:

| | 2023 | 2022 |
|---|---|---|
| Cash on hand | ₱ **90** | ₱ 90 |
| Cash in bank | **112,951** | 49,519 |
| Total | ₱ **113,041** | ₱ 49,609 |

The Group's cash in bank earns annual interest at the respective bank deposit rates.

Interest income from cash in banks amounted to ₱0.051 million, ₱0.038 million, and ₱0.025 million in 2023, 2022, and 2021, respectively (Note 24).

## NOTE 8 – RECEIVABLES - NET

The account consists of the following:

| | 2023 | 2022 |
|---|---|---|
| Trade receivables: | | |
| Third parties | ₱ **734,186** | ₱ 677,308 |
| Related party | **172,338** | 95,117 |
| | **906,524** | 772,425 |
| Less allowance for expected credit losses on: | | |
| Trade receivables – third parties | **(77,523)** | (77,523) |
| | **829,001** | 694,902 |
| Non-trade receivables: | | |
| Third parties | **23,585** | 118,282 |
| Related party | **122** | 48,087 |
| | **23,707** | 166,369 |
| Net | ₱ **852,708** | ₱ 861,271 |

Trade receivables are non-interest bearing and are generally with 30 to 90-day term. Non-trade receivables pertain to reimbursements of costs incurred on behalf of entity under common control.

Movement of allowance for expected credit losses is as follows:

| | 2023 | 2022 |
|---|---|---|
| January 1, | ₱ **77,523** | ₱ 64,941 |
| Provision | **-** | 12,582 |
| Write off | **-** | - |
| Reversals | **-** | - |
| December 31, | ₱ **77,523** | ₱ 77,523 |

In 2023, the Management did not provide additional allowance for impairment because of the high collectibility of identified uncollectible accounts, which were secured with collateral.

## NOTE 9 – INVENTORIES

The account consists of:

| | 2023 | 2022 |
|---|---|---|
| Raw material | ₱ **1,768,884** | ₱ 1,729,512 |
| Work-in-process | **33,916** | 24,574 |
| Materials and supplies | **193,263** | 116,775 |
| Finished goods | **71,338** | 44,418 |
| Total | **2,067,401** | 1,915,279 |
| Allowance for inventory obsolescence | **(26,819)** | (26,819) |
| Lower of cost and net realizable value | ₱ **2,040,582** | ₱ 1,888,460 |

Allowance for inventory write down pertains to damaged raw materials and unusable or obsolete materials and supplies.

Roll-forward of allowance for inventory losses as follows:

| | 2023 | 2022 |
|---|---|---|
| Balance at beginning of year | ₱ **26,819** | ₱ 22,859 |
| Provision for inventory losses | **-** | 3,960 |
| Reversal of previously recognized inventory losses | **-** | - |
| Balance at end of year | ₱ **26,819** | ₱ 26,819 |

In 2023, there were no additional provisions for inventory losses because the Group was able to convert the scrap into saleable items.

## NOTE 10 – PREPAYMENT AND OTHER CURRENT ASSETS

The account consists of:

| | 2023 | 2022 |
|---|---|---|
| Input VAT – net | ₱ **53,860** | ₱ 82,370 |
| Prepaid taxes | **63,200** | 67,005 |
| Prepaid importation charges | **123,729** | 27,754 |
| Refundable security deposits | **11,362** | 4,992 |
| Advances to suppliers | **1,863** | 1,863 |
| Prepaid insurance | **5,340** | 14,088 |
| Other prepayments | **10,430** | 1,165 |
| Total | **269,784** | 199,237 |
| Less: Allowance for impairment losses and unrecoverable prepaid taxes | **(1,843)** | (1,843) |
| Net | ₱ **267,941** | ₱ 197,394 |

Input tax is the 12% value added tax (VAT) on purchase of goods or services in the course of its trade or business. At the end of each taxable period, input tax can be applied against output tax.

Prepaid taxes include creditable withholding taxes withheld by the Group's customers which can be applied against future income tax liability. Prepaid importation charges pertain to advance payments to various suppliers of imported paper rolls.

Refundable security deposits pertain to cash deposits on container vans and leases of warehouse and office space. Security deposits on container vans are refundable upon return of container vans while security deposits on leases are refundable at the end of the lease period.

## NOTE 11 – ASSETS HELD FOR SALE

Investment in associate (SLC) represents 249,500 common shares and 4,920 voting preferred shares with a par value of P1 per share and P10 per share, respectively. The Parent Company's percentage of interest in SLC is based on its direct 10.22% equity plus the 29.49% equity in SLC held by its two (2) wholly-owned subsidiaries. All the shares are included in the dacion en pago in compliance with the approved loan restructuring (Note 1). This arrangement materialized in 2010 and the amount was reclassified from investment in associate to asset held-for-sale.

The ownership of the Group in SLC is measured at lower of the carrying amount and fair value less cost to sell. In 2012, the preferred shares held by the Parent Company in SLC amounting to P0.049 million were transferred to Greenkraft in relation to dacion en pago (Note 1) and reduced the loan for the same amount.

As at December 31, 2012, the carrying amount of the shares related to the Parent Company's preferred shares in SLC based on par value was also reduced to ₱0.249 million after issuance of the certificate authorizing registration.

In September 2023, the remaining dacion en pago was implemented relating to the Group's shares in SLC. The Group assigned its shares in SLC with a cost of ₱72.705 million to Greenkraft as payment to its remaining balance of borrowings to Greenkraft amounting to ₱190 million. As of December 31, 2023, the Group has fully-settled its borrowings to Greenkraft.

The carrying amount related to the shares of SCPC in SLC amounted to ₱47.895 million and ₱120.600 million, respectively.

The movements and balances of the asset held-for-sale as at December 31, 2023 and 2022 are as follows:

| | | |
|---|---|---|
| **Cost** | | |
| January 1, 2010 | ₱ | 417,779 |
| **Accumulated Share in Net Losses** | | |
| January 1, 2010 | | (28,013) |
| Share in financial performance for the year | | (55,197) |
| | | (83,210) |
| Allowance for impairment | | (199,958) |
| **Carrying Amount** | | |
| Carrying amount reclassified as asset held-for-sale in 2010 | | 134,611 |
| Assigned/written-off in 2012 | | (13,762) |
| Disposal | | (249) |
| **Carrying amount as of January 1, 2023** | | **120,600** |
| Assigned in 2023 | | (72,705) |
| **Asset Held-for-Sale as of December 31, 2023** | ₱ | **47,895** |

Certificate Authorizing Registration of SCPC for the assignment of the preferred shares in SLC to Greenkraft has already been completed on June 5, 2023 after resubmission of all pertinent documents related to the deed of assignment. The transfer and issuance of new stock certificate to Greenkraft was fully consummated on September 29, 2023.

## NOTE 12 – PROPERTY PLANT AND EQUIPMENT, NET

The account consists of:

| Particulars | Land | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Furniture, Fixtures and Equipment | Building and Improvements | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| December 31, 2021 | ₱ 185,050 | ₱ 381,958 | ₱ 38,108 | ₱ 11,052 | ₱ 6,232 | ₱ - | ₱ 108,869 | ₱ 731,269 |
| Additions | 537 | 221,074 | 2,303 | 7,684 | 2,025 | 235,291 | 45,647 | 514,561 |
| Disposals | - | (30,000) | - | - | - | - | - | (30,000) |
| Reclassifications | - | 34,899 | - | - | 4,379 | 109,585 | (148,863) | - |
| December 31, 2022 | 185,587 | 607,931 | 40,411 | 18,736 | 12,636 | 344,876 | 5,653 | 1,215,830 |
| Additions | - | 29,435 | 1,970 | 4,261 | 3,760 | 1,392 | 39,608 | 80,426 |
| Disposals | - | - | - | (288) | - | - | - | (288) |
| **December 31, 2023** | **185,587** | **637,366** | **42,381** | **22,709** | **16,396** | **346,268** | **45,261** | **1,295,968** |
| | | | | | | | | |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| December 31, 2021 | - | 164,659 | 13,220 | 4,252 | 3,046 | - | - | 185,177 |
| Depreciation | - | 101,929 | 10,313 | 2,768 | 3,548 | 42,778 | - | 161,336 |
| Disposals | - | (4,000) | - | - | - | - | - | (4,000) |
| December 31, 2022 | - | 262,588 / | 23,533 | 7,020 | 6,594 | 42,778 | - | 342,513 |
| Depreciation | - | 101,347 | 7,434 | 3,896 | 2,953 | 62,728 | - | 178,358 |
| Disposals | - | - | - | (288) | - | - | - | (288) |
| **December 31, 2023** | **-** | **363,935** | **30,967** | **10,628** | **9,547** | **105,506** | **-** | **520,583** |
| | | | | | | | | |
| **Carrying amount** | | | | | | | | |
| December 31, 2022 | ₱ 185,587 | ₱ 345,343 | ₱ 16,878 | ₱ 11,716 | ₱ 6,042 | ₱ 302,098 | ₱ 5,653 | ₱ 873,317 |
| **December 31, 2023** | **₱ 185,587** | **₱ 273,431** | **₱ 11,414** | **₱ 12,081** | **₱ 6,849** | **₱ 240,762** | **₱ 45,261** | **₱ 775,385** |

In 2021, SCPC availed of a long-term loan for the purchase of land acquired in December 2021. The acquired land serves as a security to the loan availment.

The land and improvements thereon in San Vicente, Davao del Norte and land in Carmen, Davao del Norte are subject to mortgage under the Omnibus Loan and Security Agreement (OLSA) entered by the SCPC, SMPC and another affiliate in 2021. As at December 31, 2023, and 2022, the carrying amount of mortgaged land and improvements amounted to P185.587 million.

Depreciation is recognized as follows:

| | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Cost of sales | ₱ | **84,722** | ₱ | 39,016 | ₱ | 77,942 |
| Cost of services | | **12,313** | | 43,868 | | 28,997 |
| Operating expenses | | **81,323** | | 78,452 | | 5,433 |
| Total | ₱ | **178,358** | ₱ | 161,336 | ₱ | 112,372 |

## NOTE 13 – INVESTMENT IN EQUITY INSTRUMENTS

The account consists of investments in shares of stock of utility companies and golf/country club memberships which were designated as financial assets at FVOCI.

These investments were measured at fair value based on quoted prices as at December 31, 2023 and 2022.

The movements in investments in equity instruments are as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at beginning of year | ₱ | **102,435** | ₱ | P95,066 |
| Additions | | **86,605** | | 26,830 |
| Disposals | | **(59,814)** | | (19,461) |
| Balance at end of year | | **129,226** | | 102,435 |
| **Changes in Fair Value** | | | | |
| Balance at beginning of year | | **(3,346)** | | 10,646 |
| Changes in fair value | | **18,956** | | (4,382) |
| Transfers of fair value reserve for investments in equity instruments designated at FVOCI | | **(9,607)** | | (9,610) |
| Balance at end of year | | **6,003** | | (3,346) |
| **Total** | ₱ | **135,229** | ₱ | P99,089 |

## NOTE 14 – OTHER NON-CURRENT ASSETS

This account pertains to refundable security deposits only.

## NOTE 15 – TRADE AND OTHER PAYABLES

The account consists of the following:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Trade payables | | | | |
| Third parties | ₱ | **77,635** | ₱ | 158,615 |
| Related parties | | **326,145** | | 59,026 |
| | | **403,780** | | 217,641 |
| Payable to bank | | **382,335** | | 371,034 |
| Advances from customers | | | | |
| Third parties | | **120,723** | | 5,748 |
| Related parties | | **303,435** | | 688,093 |
| | | **424,158** | | 693,841 |
| Accrued expenses | | **544,003** | | 705,396 |
| Payable to government agencies | | **115,298** | | 12,442 |
| Others | | **237** | | 36,879 |
| | | **659,538** | | 754,717 |
| Total | ₱ | **1,869,811** | ₱ | 2,037,233 |

Trade payables generally have 30-day term and includes interest-bearing letter of credits with terms ranging from 90 to 180days.

Payables to bank pertain to trust receipts transaction with banks used to purchase imported paper with terms of 60 to 180 days. Interest expense on letter of credits recognized in profit or loss amounted to ₱43.85 million, ₱19.69 million, and ₱2.682 million in 2023, 2022, and 2021.

Advances from customers pertain to advance payments made by customers for purchase of goods. As of December 31, 2023, and 2022, the Group has not refunded any amount.

Accrued expenses mainly pertain to accrued charges from Bureau of Customs for raw materials importation, payable to other tolling customers and suppliers for paper purchases.

Details of accrued expenses as at December 31 are as follows:

| Particulars | | 2023 | | 2022 |
|---|---|---|---|---|
| Importation cost | ₱ | **56,668** | ₱ | 47,687 |
| Salaries and other employee benefits | | **14,450** | | 2,552 |
| Other purchases: | | | | |
| Third parties | | **389,490** | | 160,607 |
| Related parties | | **40,214** | | 465,941 |
| Insurance | | **2,434** | | 13,590 |
| Professional fees | | **19,563** | | 3,522 |
| Outside services | | **3,660** | | 4,548 |
| Taxes and licenses | | **2,299** | | - |
| Others | | **6,932** | | 6,949 |
| Total | ₱ | **535,710** | ₱ | 705,396 |

Other purchases pertain to accruals of other supplies and services locally purchased and incurred for the period.

## NOTE 16 – LOANS PAYABLE

This account consists:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Current portion: | | | | |
| Various local banks | ₱ | **942,134** | ₱ | 533,388 |
| Greenkraft | | **-** | | 190,000 |
| | | **942,134** | | 723,388 |
| Net of current portion: | | | | |
| Local bank loan | | **468,231** | | 504,970 |
| Total | ₱ | **1,410,365** | ₱ | 1,228,358 |

Short-term Loans

Short-term loans from local banks are unsecured, peso-denominated promissory notes intended for additional working capital requirements of the SMPC. These are payable within six months and bear annual interest rates ranging from 4.75% to 6.25% and 2.0% to 5.5% in 2023 and 2022, respectively.

The related interest expense on the above loans recognized in profit or loss amounted to ₱33.674 million, ₱15.308 million, and ₱9.557 million in 2023, 2022, and 2021, respectively.

Omnibus Loan and Security Agreement (OLSA)

On November 29, 2021, the SCPC, SMPC, and another affiliate, collectively as Borrowers, entered into an Omnibus Loan and Security Agreement (OLSA) with a local bank. The loan has seven-year term and up to an aggregate amount of P2 billion or its U.S. Dollar equivalent. The proceeds of the loan will be used to finance the purchase by the Borrowers of the subject assets as described in Section 1 of Part C of the OLSA. The loan drawdown will enable the Borrowers to purchase the subject properties and to operate the Dole Philippines Inc. (DPI) box plant property in Davao.

The loan has floating interest rate based on the prevailing market rate at each repricing date, with a one-time option to fix. The loan is secured by mortgaged properties as described in Part C, Section 3.02 and enumerated in Schedule II of the OLSA, and future receivables of the Borrowers, and guaranteed by the major shareholders of the Parent Company.

The other essential elements of the OLSA, among others, are summarized below:

a) The Borrowers are entitled to a grace period on principal payments for the first 12 months reckoned from the initial drawdown and shall pay only interest on the loan amount. At the end of the 13$^{th}$ month from the initial drawdown date, the Borrowers shall commence payment of the principal and interest. The principal payments shall be made in 72 equal monthly amortizations beginning on the 13$^{th}$ month from the initial drawdown date.

b) The Borrowers shall pay interest on the outstanding advance monthly in arrears at the interest rate on each interest payment for the interest period. The interest rate on the advance payment shall be the prevailing market rate as of the repricing date.

c) The Borrowers shall not sell, lease, transfer, grant or otherwise dispose all or substantially all of its properties and assets, except for leases entered into with any of the Borrower's affiliates for the lease of DPI Box Plant and Printing Plant.

d) Cross default and cross acceleration provision as an event of default. This is when the Borrower defaults in the payment of principal or interest or commits violation of any terms and conditions, or accelerate or permit acceleration, of any agreement and the lender believes that the breach or violation will adversely and materially affect the Borrower's operations or ability to perform its obligation under the OLSA.

e) No new borrowing, unless with consent of the lenders.

f) Creditor's consent for change in material ownership in the borrowers and mortgagors.

g) Standard covenants, representations and warranties

In December 2021, the SCPC initially availed of the loan amounting to $2,588,000 equivalent to P130.401 million for the purchase of land (Note 11).

On January 24, 2022, the SCPC availed the second and final drawdown of the loan amounting to $9,087,396.

As at November 29, 2022, the loan has been fully drawn by the SCPC and an affiliate. SMPC has no loan drawdown as of December 31, 2023.

In 2022, SCPC's outstanding loans payable were converted to Philippine peso.

In accordance with Part B, Section 5.01 (m) of the OLSA, the Borrowers are required to maintain debt to service coverage ratio of at least 1.25x, a total debt-to-equity ratio of 1.5 to 1, and a debt to EBITDA of no more than three times. The SCPC has failed to comply with the financial ratios indicated in the OLSA as at December 31, 2021. The OLSA provides that default provisions, other than payment default, are remediable within 30 days after written notice from the lender of such failure to comply with the terms or covenant in the OLSA.

As at December 31, 2023, and 2022, the Borrowers have not received any notice of default from the lender that will trigger the non-compliance with financial ratios an event of default. On April 1, 2024, and August 23, 2023, upon the request of SCPC, SCPC received a letter from the lender confirming that the bank did not declare SCPC in default under the OLSA notwithstanding their non-compliance with the required financial ratios as at December 31, 2023, and 2022, respectively.

Transaction cost on loan availment pertaining to documentary stamp tax paid in 2021 amounted to P4.522 million, of which P1.002 million relates to initial drawdown in 2021 and recorded as deduction from loans payable, and the remaining balance of P3.520 million relates to final drawdown in January 2022 recorded as part of Prepaid taxes (Note 9).

Omnibus Agreement (Amended in 2010)
Borrowings from Greenkraft and Roxburgh were secured loans and were originally obtained from lending banks under the Omnibus Agreement's revolving working capital facility subject to annual interest rates prior to assignment of the loan to third parties in 2006. The said creditors/lenders are now considered related parties of STN following the dacion en pago arrangements and reassessment of related party relationships in 2010.

The property and equipment of the Group and present and future receivables of the subsidiaries are used as collateral in accordance with the Amended Agreement. In 2012, the total fair value of assets pledged as security, which includes investment in an associate, land and land improvements and building and building improvements. Declined from P290 million to P289.88 million (Note 1). In 2014. The land and land improvements and building and building improvements of SCPC were transferred to the creditors/lenders.

Furthermore, the Amended Agreement provides for certain affirmative and negative covenants subject for compliance by the Company and payment terms as discussed in Note 1 which is due after completion of dacion en pago that is expected to be completed in 2022.

Upon approval of the Amended Agreement, the above creditors are aware of the Group's non-compliance with covenant due to the Group's financial condition and such will not be a ground to default from the Amended Agreement.

As discussed in Note 1, the accrued interest amounting to P294.6 million which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was condoned by its major creditors in 2011. In addition, the accrued interest in 2010 amounting to P13.1 million was also reversed in 2011 in relation to the 2-year grace period provided by its creditors. These were all offset against advances to SCPC as the proceeds of the original loan were loaned by the Parent Company to SCPC, subject to the same interest rates.

In 2012. TPC and SCPC's investment in shares of stock with SLC amounting to P0.64 million was assigned to Greenkraft as part of the dacion en pago arrangements (Note 1) resulting to a reduction of the borrowing balance.

In 2013, the creditors/lenders granted STN two (2) years extension of principal repayment, reduction of interest rate from 6% p.a. to 2% p.a. for the first five (5) years and further waive interest charges annually until 2019.

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the conversion of loans from Greenkraft and Roxburgh into common shares in STN. The minority shareholders present or represented at the meeting unanimously voted to waive the requirement to conduct a right or public offering of the shares to be issued by virtue of debt-to-equity conversion. Consequently, principal and interest payments on long-term debt was suspended beginning July 2019.

On December 29, 2020, the Parent Company issued 149,562,081 shares to Greenkraft and Roxburgh effecting the debt-to-equity conversion following the SEC approval of the Parent Company's increase in authorized capital stock on the same day.

In September 2023, the remaining dacion en pago was implemented relating to the Group's shares in SLC. The Group assigned its shares in SLC with a cost of P72.705 million to Greenkraft as payment to its remaining balance of borrowings to Greenkraft amounting to P190 million resulting to a gain on disposal (Note 19). As of December 31, 2023, the Group has fully-settled its borrowings to Greenkraft.

Changes in liabilities from financing activities are as follows:

| | | **2023** | | 2022 |
|---|---|---|---|---|
| Balance at beginning of year | ₱ | **1,038,358** | ₱ | 652,148 |
| Additions to borrowings | | **3,732,865** | | 1,492,210 |
| Payments to borrowings | | **(3,360,858)** | | (916,000) |
| | ₱ | **1,410,365** | ₱ | P1,228,358 |

## NOTE 17 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Group has transactions and balances with its related parties. All material related party transactions are subject to approval by the BOD. Material related party transactions pertain to those transactions, either individually or in aggregate over a 12-month period, that exceed 10% of the Company's total assets based on the latest audited financial statements. All other related party transactions that are considered not material are approved by management.

The balances and transactions with related parties as at and for the years ended December 31 follows:

| | | | | **Outstanding Balance** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Year** | ***Note*** | **Amount of Transaction** | **Trade Receivables** | **Trade Payables** | **Accrued Expenses** | **Due to Related Parties** | **Borrowings** | **Terms** | **Conditions** |
| ***Entities under Common Control*** | | | | | | | | | | |
| Reimbursements | **2023** | *b* | - | **122** | - | - | - | - | Collectible on demand; | Unsecured; no |
| | 2022 | | - | 122 | | | | | non-interest bearing | impairment |
| Sales | **2023** | *c* | **29,801** | **823** | - | - | - | - | Collectible on demand; | Unsecured; |
| | | | | | | - | | - | | no |
| | 2022 | | 92,394 | 92,394 | - | | - | | non-interest bearing | impairment |
| ***Associates*** | | | | | | | | | | |
| Advances | **2023** | *a* | - | - | - | - | **6,630** | - | Payable on demand; | Unsecured |
| | 2022 | | - | - | - | - | 18,981 | - | non-interest bearing | |
| ***Shareholders*** | | | | | | | | | | |
| Borrowings | **2023** | *15* | **-** | **-** | **-** | **-** | **-** | **-** | Payable in 25 years in equal | |
| | 2022 | | - | - | - | - | - | 190,000 | quarterly installments; interest bearing at 2% p.a. on the first five years; 6% p.a. on the 6th until the 15th year, and 8% p.a. on the 16th year onwards until maturity | Secured by various current and noncurrent assets of the Company |

| Category | Year | Note | Amount of Transaction | Outstanding Balance: Trade Receivables | Trade Payables | Accrued Expenses | Due to Related Parties | Borrowings | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Other Related Parties*** | | | | | | | | | | |
| Lease and warehousing costs | **2023** | *D* | **5,322** | **-** | **5,322** | **-** | **-** | - | Collectible on demand; | Unsecured; no |
| | 2022 | | - | - | - | - | - | - | non-interest bearing | impairment |
| Purchases | **2023** | *C* | **31,416** | | **301,656** | **40,214** | | | Collectible on demand; | Unsecured; no |
| | 2022 | | 492,648 | | 59,026 | 465,941 | | | non-interest bearing | impairment |
| Sales | **2023** | *c* | **45,107** | **171,515** | | - | | - | Collectible on demand; | Unsecured; no |
| | 2022 | | 62,260 | 50,688 | - | | - | | non-interest bearing | impairment |
| Advances from customers | **2023** | *f* | **164,541** | | **322,602** | - | - | - | | |
| | 2022 | | 601,397 | - | 688,093 | **-** | **-** | - | | |
| Advances | **2023** | *a* | **614** | **-** | **-** | **-** | **41,253** | | Collectible on demand; | Unsecured; no |
| | 2022 | | - | - | - | - | 40,639 | | non-interest bearing | impairment |
| **Key Management Personnel** | | | | | | | | | | |
| Short-term benefits | **2023** | *20* | **4,976** | **-** | **-** | **-** | **-** | - | Payable on demand; | Unsecured |
| | 2022 | | 4,263 | - | - | - | - | - | non-interest bearing | |
| **TOTAL** | **2023** | | | **172,460** | **629,580** | **40,214** | **47,883** | - | | |
| TOTAL | 2022 | | | **143,204** | **747,119** | **465,941** | **59,620** | **190,000** | | |

a. Amounts owed to related parties consist mainly of non-interest-bearing advances for working capital requirements with no definite repayment dates. There are expected to be settled through realization of the dacion en pago in payment of the investment in shares of stocks of SCPC in SLC.

b. Reimbursement of various expenses were paid in advance by the Parent Company and charged to the related party.

c. SMPC has sales and purchases of inventories with related parties. These transactions are unsecured, non-interest bearing and are generally with 30 to 90-day term. Outstanding related party balances of SMPC were assumed by the Group upon acquisition in December 2020 (Note 5).

*d. Sales to and Purchases from Related Parties*
Sales and purchases of inventories with related parties are made in the ordinary course of business. These transactions are unsecured, non-interest bearing and are generally with 30 to 90-day term.

*e. Lease and Warehousing Costs*
On June 1, 2011, SMPC entered into a lease and warehousing cost agreement with Golden Bales Corporation for the lease and warehousing of certain properties for its plate-making process. The contract is for a period of 5 years which expired on October 21, 2016 and was renewed thereafter for another 5-year term. The lease was renewed for another 2 years until October 31, 2023. The lease agreement qualified as lease under PFRS 16 (see Note 23).

f. Advances from customers pertains to advance payments made by related parties for purchase of goods.

g. Compensation of the Group's key management personnel is comprised of short-term benefits amounting to P4.976 million, P4.263 million, and P4.463 million in 2023, 2022 and 2021, respectively, recognized as part of "Professional fees and outside services" account under Operating expenses (Note 20).

Unless otherwise indicated, amounts due to/from related parties are expected to be settled in cash.

The long-term loan of SCPC under the OLSA is guaranteed by the Parent Company's major shareholders without any charge (Note 15).

## NOTE 18 – SHARE CAPITAL

The share capital of the Group is as follows:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | No. of shares | | Amount in Thousand | No. of shares | | Amount in Thousand |
| Authorized ₱1.00 par | **2,000,000,000** | ₱ | **2,000,000** | 2,000,000,000 | ₱ | 2,000,000 |
| Subscribed, issued, paid-up and outstanding: | **1,418,812,081** | ₱ | **1,418,812** | 1,418,812,081 | ₱ | 1,418,812 |

On July 17, 2019, the BOD and Stockholders of the Parent Company approved the acquisition of shares of SMPC through a share swap transaction wherein all shareholders of SMPC will exchange all their shares in SMPC for shares of the Parent Company. On the same date, the BOD and Stockholders also approved the conversion of loans from Greenkraft and Roxburgh into common shares in STN. The said approvals were reconfirmed on November 19, 2020.

To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the AOI to increase the authorized capital stock from ₱1 billion, divided into one billion common shares to ₱2 billion, divided into two billion common shares with par value of ₱1 per share.

On December 29, 2020, the SEC approved the increase in authorized capital stock of the Parent Company. On the same date, the Parent Company issued 269,250,000 shares to the shareholders of SMPC in exchange for all of their shareholdings to the latter. The Parent Company also issued 149,562,081 shares to its lenders effecting the debt-to-equity conversion.

Expenses incurred that are directly attributable to the issuance of shares. Net of related tax benefit, amounted to ₱6.21 million. Such amount was deducted against additional paid-in capital in 2020.

Additional Paid-in Capital
The Parent Company's loans were restructured in October 2010 and the 123,817,953 unissued shares amounting to ₱123.82 million were issued to a creditor to settle portion of the loan amounting to ₱247.63 million. The excess of the amount settled over the amount of issued shares (₱123.81 million) was recognized as part of additional paid-in capital (Note 1).

Earnings (Loss) Per Share
Basic earnings per common share in centavos for the years ended December 31, is calculated as follows:

| | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Net income | ₱ | **117,782** | ₱ | 18,246 | ₱ | (2,315) |
| Divided by weighted average number of common shares, in thousands | | **1,418,812** | | 1,418,812 | | 1,418,812 |
| Basic and diluted earnings(loss) per share | ₱ | **P 0.0830** | ₱ | 0.0200 [1] | ₱ | 0.00127 |

There are no dilutive shares used in the computation of the earnings per shares, hence, basic earnings per share is the same with the dilutive earnings per share.

## NOTE 19 – SHARE PREMIUM

The movements of share premium are as follows:

| | | **2023** | | 2022 |
|---|---|---|---|---|
| At January 1 | ₱ | **408,423** | ₱ | 408,423 |
| Share premium on shares issued during the year | | | | |
| Gross proceeds | | **-** | | - |
| Direct attributable issuance costs | | **-** | | - |
| End | ₱ | **408,423** | ₱ | 408,423 |

Share premium arises when the amount subscribed is in excess of nominal value.

## NOTE 20 – REVENUES

Recognition of each revenue stream is as follows:

| Particulars | | **2023** | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Products sold at point in time | ₱ | **1,522,691** | ₱ | 1,716,844 | ₱ | 1,231,289 |
| Services transferred over time | | **1,884,176** | | 488,569 | | 45,216 |
| Total | ₱ | **3,406,867** | ₱ | 2,205,413 | ₱ | 1,276,505 |

The Company's disaggregation of each source of product sales is presented below:

| Particulars | | **2023** | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Local sales | ₱ | **983,228** | ₱ | 1,037,570 | ₱ | 432,198 |
| Indirect export sales | | **660,698** | | 675,932 | | 778,361 |
| Sales of scrap | | **42,222** | | 40,172 | | 20,730 |
| Sales discount | | **(163,457)** | | (36,830) | | - |
| Total | ₱ | **1,522,691** | ₱ | 1,716,844 | ₱ | 1,231,289 |

## NOTE 21 – COST OF SALES AND SERVICES

For the years ended December 31, the account consists of:

| Particulars | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Cost of sales | ₱ | **2,862,343** | ₱ | 1,653,233 | ₱ | 1,063,361 |
| Cost of services | | **94,051** | | 170,401 | | 76,485 |
| Total | ₱ | **2,956,394** | ₱ | 1,823,634 | ₱ | 1,139,846 |

Cost of Sales
Details of the account as follows:

| | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| **Cost of sales** | | | | | | |
| Raw materials, beg | ₱ | **1,729,512** | ₱ | 549,309 | ₱ | 606,695 |
| Add: Purchases | | **2,550,446** | | 2,630,557 | | 759,385 |
| Total raw materials | | **4,279,958** | | 3,179,866 | | 1,366,080 |
| Less: Raw materials, end | | **(1,768,884)** | | (1,729,512) | | 549,309 |
| Raw materials used | | **2,511,074** | | 1,450,354 | | 816,771 |
| Direct labor | | **41,968** | | 15,528 | | 24,846 |
| Factory overhead | | **345,563** | | 221,704 | | 225,272 |
| Total manufacturing cost | | **2,898,605** | | 1,687,586 | | 1,066,889 |
| Add: Work-in-process, beg | | **24,573** | | 13,426 | | 16,708 |
| Total goods available for manufacturing | | **2,923,178** | | 1,701,012 | | 1,083,597 |
| Less: Work-in-process, end | | **(33,916)** | | (24,574) | | (13,426) |
| Total goods manufactured | | **2,889,262** | | 1,676,438 | | 1,070,171 |
| Add: Finished goods, beg | | **44,419** | | 21,214 | | 14,404 |
| Total goods available for sale | | **2,933,681** | | 1,697,652 | | 1,084,575 |
| Less: Finished goods, end | | **(71,338)** | | (44,419) | | 21,214 |
| **Total** | ₱ | **2,862,344** | ₱ | 1,653,233 | ₱ | 1,063,361 |

Cost of Services

Details of the account as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Cost of services:** | | | |
| Materials used | ₱ **31,732** | ₱ 39,819 | ₱ 18,325 |
| Depreciation and amortization | **23,142** | 62,123 | 31,591 |
| Indirect labor | **18,159** | 30,231 | 6,505 |
| Salaries, wages and benefits | **7,978** | 16,822 | 7,008 |
| Utilities | **4,619** | 5,948 | 5,005 |
| Supplies | **3,531** | 2,443 | 2,914 |
| Insurance | **2,490** | 5,204 | 1,430 |
| Outside services | **1,255** | 4,919 | 1,609 |
| Warehousing cost | **695** | 1,861 | 1,966 |
| Fuel and oil | **111** | 477 | 35 |
| Taxes and licenses | **40** | 113 | 37 |
| Rent | **-** | - | 60 |
| Others | **300** | 441 | - |
| **Total** | ₱ **94,052** | ₱ 170,401 | ₱ 76,485 |

Details of factory overhead are as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Depreciation and amortization | ₱ **141,717** | ₱ 85,954 | ₱ 84,612 |
| Indirect labor | **79,691** | 40,614 | 23,062 |
| Indirect materials used | **70,980** | 36,756 | 64,972 |
| Repairs and maintenance | **19,003** | 11,766 | 6,970 |
| Insurance | **13,097** | 4,804 | 5,069 |
| Utilities | **8,461** | 18,197 | 17,743 |
| Outside services | **6,600** | 4,540 | 5,706 |
| Supplies | **2,737** | 14,964 | 10,333 |
| Warehousing cost | **2,480** | 3,155 | 6,550 |
| Fuel and oil | **585** | 441 | 122 |
| Taxes and licenses | **212** | 105 | 133 |
| Others | **-** | 408 | - |
| **Total** | ₱ **345,563** | ₱ 221,704 | 225,272 |

## NOTE 22 – OPERATING EXPENSES

This account consists of the following:

| | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Depreciation | ₱ | **84,517** | ₱ | 84,121 | ₱ | 6,239 |
| Salaries, wages and employee benefits | | **71,581** | | 56,328 | | 12,057 |
| Delivery expense | | **58,330** | | 43,017 | | 30,973 |
| Utilities | | **51,963** | | 16,043 | | 2,651 |
| Insurance, taxes and licenses | | **46,477** | | 18,041 | | 17,333 |
| Professional fees, outside services and legal fees | | **21,755** | | 15,087 | | 22,421 |
| Representation and entertainment | | **16,806** | | 3,717 | | 2,621 |
| Transportation and travel | | **4,706** | | 6,504 | | 868 |
| Office and Computer supplies | | **4,206** | | 2,819 | | - |
| Repairs and maintenance | | **2,112** | | 1,687 | | 11,361 |
| Listing Fees | | **261** | | 250 | | 250 |
| Provision for impairment | | **-** | | 12,582 | | 20,814 |
| Reversal of previously recognized inventory write-down | | **-** | | 3,960 | | (15,388) |
| Miscellaneous | | **6,716** | | 3,977 | | 2,879 |
| **Total** | ₱ | **369,430** | ₱ | 268,133 | ₱ | 115,079 |

## NOTE 23 – OTHER INCOME (CHARGES), NET

This account consists of the following:

| | | 2023 | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Gain on disposal of investment | ₱ | **117,295** | ₱ | - | ₱ | - |
| Realized gain/loss on change in foreign exchange rate | | **5,624** | | (51,432) | | 6,299 |
| Dividend Income | | **5,550** | | 4,759 | | 5,715 |
| Interest Income | | **51** | | 38 | | 25 |
| Gain on sale of property and equipment | | **-** | | 4,000 | | - |
| Others | | **46,223** | | 5,913 | | 144 |
| Total | ₱ | **174,743** | ₱ | (36,722) | ₱ | 12,183 |

## NOTE 24 – INCOME TAXES

This account consists of the following:

| | | **2023** | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Current tax expense | ₱ | **62,320** | ₱ | 17,059 | ₱ | 13,250 |
| Deferred tax expense | | **(5,896)** | | (14,424) | | (6,834) |
| Effect of change in income tax rate – current | | **-** | | - | | (914) |
| Effect of change in income tax rate – deferred | | **-** | | - | | (4,518) |
| Income tax expense | ₱ | **56,424** | ₱ | 2,635 | ₱ | 984 |

The reconciliation of the income tax expense computed at the statutory income tax rates to the income tax expense recognized in profit or loss is as follows:

| Particulars | | **2023** | | 2022 | | 2021 |
|---|---|---|---|---|---|---|
| Income before income tax | ₱ | **174,206** | ₱ | 30,990 | ₱ | 18,949 |
| Income tax expense (benefit) at statutory tax rate of 25% | ₱ | **43,552** | ₱ | 7,748 | ₱ | 4,737 |
| Adjustments to income tax resulting from: | | | | | | |
| Recognition of NOLCO which was previously unrecognized | | **-** | | (3,900) | | - |
| Excess of MCIT over RCIT | | **13,843** | | 60 | | - |
| Movement of unrecognized deferred tax asset | | | | (98) | | 5 |
| Dividend income | | **(1,389)** | | (1,190) | | (1,429) |
| Deferred tax on leases | | **(89)** | | - | | - |
| Interest income subjected to final tax | | **(12)** | | (10) | | (6) |
| Nondeductible expenses | | **519** | | 25 | | 3,109 |
| Effect of change in income tax rate - current | | **-** | | - | | (914) |
| Effect of change in income tax rate - deferred | | **-** | | - | | (4,518) |
| Total | ₱ | **56,424** | ₱ | 2,635 | ₱ | (984) |

The components of deferred tax assets (liabilities) are as follows:

| | | **2023** | | 2022 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Allowance for ECL | ₱ | **10,511** | ₱ | 10,511 |
| Allowance for inventory obsolescence | | **6,705** | | 6,705 |
| Unrealized forex gain | | **3,873** | | 3,873 |
| Retirement liability | | **2,476** | | 2,476 |
| Leases | | **760** | | 670 |
| | | **24,325** | | 24,235 |
| **Deferred tax liability** | | | | |
| Acquisition of subsidiary | | **19,745** | | (25,551) |
| **Net** | ₱ | **4,580** | ₱ | (1,316) |

As at December 31, 2023 and 2022, deferred tax assets have not been recognized in respect of the following temporary differences and NOLCO as management believes that it is not probable that sufficient taxable profit will be available against which all deferred tax assets may be utilized.

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Temporary differences: | | | | |
| Allowance for impairment losses of assets held-for-sale (previously recognized as investment in an associate) | ₱ | **199,958** | ₱ | 199,958 |
| Allowance for impairment of receivables | | **35,480** | | 35,480 |
| Allowance for impairment losses of advances to suppliers | | **1,843** | | 1,843 |
| | | **237,281** | | 237,281 |
| MCIT | | **3,923** | | 1579 |
| NOLCO | | **45,995** | | - |
| | ₱ | **287,199** | ₱ | 238,860 |

As at December 31, 2023, the Group has NOLCO amounting to ₱45.995 million and nil as at December 31, 2023 and 2022, respectively, which can be carried forward as deduction against future taxable income as follows:

| Year Incurred | | Amount | | Expired/ Applied | | Balance | Date of Expiry |
|---|---|---|---|---|---|---|---|
| 2023 | ₱ | 45,995 | ₱ | - | ₱ | 45,995 | 2026 |
| 2021 | | 3,532 | | 3,532 | | - | 2026 |
| 2020 | | 8,327 | | 8,327 | | - | 2025 |
| 2019 | | 3,743 | | 3,743 | | - | 2022 |
| | ₱ | 61,597 | ₱ | 15,602 | ₱ | 45,995 | |

<u>CREATE Law</u>
On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the CREATE Act that are relevant to the Company:

a) Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subjected to 25% income tax. Said reductions are effective July 1, 2020.

b) MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.

c) The imposition of improperly accumulated earnings tax has been repealed.

The enactment of the CREATE Act is a non-adjusting subsequent event thus, the current and deferred taxes as at December 31, 2020 were measured using the applicable income tax rates as at December 31, 2020. The corporate income tax of the Company will be lowered from 30% to 25% effective July 1, 2020.

Effective July 1, 2023, as prescribed by BIR Revenue Memorandum Circular (RMC) No.69-2023 issued on June 20, 2023, the rate of MCIT for domestic corporations shall be reverted from 1% to 2% of their gross income.

## NOTE 25 – RETIREMENT LIABILITY

The SMPC maintains a non-contributory, defined benefit pension plan (the "Plan") covering substantially all of its regular employees. Under the provisions of the Plan, the normal retirement age is 60, employees, upon reaching retirement age with at least 5 years of service, can avail of early retirement. Employees covered have a vested right to a certain percentage of retirement benefits after completion of at least 5 years of service.

Contributions and costs are determined in accordance with the actuarial studies made for the Plan. Annual cost is determined using the projected unit credit method. The SMPC's latest actuarial valuation date is as at December 31, 2022. Valuations are obtained on a periodic basis.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The reconciliation of the present value of defined benefit obligation and the fair value of the plan assets to the recognized liability presented as "Retirement benefits liability - net" in the statements of financial position is as follows:

| Particulars | | 2023 | 2022 |
|---|---|---|---|
| Present value of defined benefit obligation | ₱ | **13,940** | 9,904 |
| Fair value of plan assets | | **-** | - |
| (Asset) / liability to be recognized | ₱ | **13,940** | 9,904 |

Net plan costs for the year are as follows:

| Particulars | | 2023 | | 2022 |
|---|---|---|---|---|
| Current service cost | ₱ | **3,325** | ₱ | 988 |
| Net interest cost | | **711** | | 372 |
| Net plan cost to be recognized on profit or loss | | **4,036** | | 1,360 |
| Actuarial gain (loss) – Obligation | | **-** | | 1,343 |
| Remeasurement gain (loss) – Plan assets | | **-** | | - |
| Actuarial gain (loss) to be recognized on other comprehensive income | | **-** | | 1,343 |
| Net plan cost to be recognized on total comprehensive income | ₱ | **4,036** | ₱ | 2,703 |

Changes in the present value of the defined benefit obligation are as follows:

| Particulars | | 2023 | | 2022 |
|---|---|---|---|---|
| At beginning of the year | ₱ | **9,904** | ₱ | 7,385 |
| Interest cost | | **711** | | 371 |
| Current service cost | | **3,325** | | 989 |
| Benefits paid | | **-** | | (184) |
| Actuarial gain (loss) | | **-** | | 1,343 |
| At end of the year | ₱ | **13,940** | ₱ | 9,904 |

Changes in the fair value of plan assets are as follows:

| Particulars | | **2023** | | 2022 |
|---|---|---|---|---|
| At beginning of the year | ₱ | - | ₱ | - |
| Interest income | | - | | |
| Contributions | | - | | 184 |
| Benefits paid | | - | | (184) |
| Remeasurement gain (loss) – Return on plan assets | | - | | - |
| At end of the year | ₱ | - | ₱ | - |

Movement in the net retirement benefits liability recognized in the statement of financial position are as follows:

| Particulars | | **2023** | | 2022 |
|---|---|---|---|---|
| Net Liability (Assets) recognized at the beginning of year | ₱ | **9,904** | ₱ | 9,921 |
| Total retirement expense (income) | | **4,036** | | 1,360 |
| Total amount recognized in OCI | | - | | (1,343) |
| Liability (asset) recognized at the end of the year | ₱ | **13,940** | ₱ | 9,938 |

The principal assumptions used in determining retirement benefit obligations as of December 31, for the Company's plan are as shown below:

| | **2023** | 2022 |
|---|---|---|
| Discount rate | **7.18%** | 7.18% |
| Rate of increase in compensation | **8.00%** | 8.00% |

The mortality and the disability rates used in the valuation were the 1994 Group Annuity Table and the 1952 Disability Table, respectively.

As at December 31, 2023 and 2022, the weighted average duration of the defined benefit obligation is 18 years.

*Sensitivity Analysis on Actuarial Assumptions*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by . the amounts shown below:

| | **2023** | | 2022 |
|---|---|---|---|
| 2023 | | | |
| Discount rates | +100 basis points . | | |
| | -100 basis points | ₱ | (1,319) |
| Future salary increases | +1.00% | | 1,584 |
| 2022 | -1.00% | | |
| Discount rates | +100 basis points | | |
| | -100 basis points | ₱ | (1,319) |
| Future salary increases | +1 .000/0 | | 1,584 |

Although analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

Maturity analysis of the benefit payments is shown below:

| | | Carrying amount | | Contractual Cashflows | | Less than 1 year | | Within 1 to 5years | | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|---|
| **2023** | | | | | | | | | | |
| Defined benefit obligation | ₱ | **9,904** | ₱ | **185,124** | ₱ | **143** | ₱ | **1,532** | ₱ | **183,449** |
| 2022 | | | | | | | | | | |
| Defined benefit obligation | ₱ | 9,904 | | 185,124 | | 143 | | 1,532 | | 183,449 |

The retirement benefits cost recognized as part of "Salaries, wages and other employee benefits" in the statements of comprehensive income are recognized as follows:

| Particulars | | 2023 | | 2022 |
|---|---|---|---|---|
| Cost of sales and services | ₱ | **2,926** | ₱ | 988 |
| Operating expenses | | **1,109** | | 371 |
| Total | ₱ | **4,035** | ₱ | 1,359 |

Funding Arrangements

The Group is not required to pre-fund the future defined benefits payable under the Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

## NOTE 26 – SIGNIFICANT AGREEMENTS

Tolling Agreements

The SMPC has tolling agreements with certain customers wherein these customers will provide paper rolls for the SMPC to process or manufacture into corrugated fiber board boxes at a guaranteed volume subject to the production frequency and specifications to be agreed by both parties. For the services provided, the SMPC will receive tolling fees which are recorded as “Service income” account in the statement of comprehensive income.

Tolling fees amounted to ₱1.854 million and ₱463.121 million in 2023 and 2022, respectively (see Note 20).

Lease Agreements

The Company has existing lease agreements covering its office space, warehouses, machinery and equipment and other facilities which are presently used in Davao City for periods ranging from one (1) to ten (10) years, and a sales office and warehouse in General Santos City for a period of five (5) to ten (10) years, renewable under terms and conditions to be agreed upon by both parties.

In 2023 and 2022, the Group entered into new lease agreements for lease for land, office space, machinery, and equipment. Details of the lease agreements are as follows:

a. The Group leases warehouse stall from BTY and Sons Development Corporation with floor area of 1000 sqm located at BTY Compound, National Highway, General Santos City. The lease commenced on January 1, 2021 and expiring on December 31, 2028. Based on the terms of agreement, rental rates is subject to 10% increase per annum and is required to pay security deposit upon execution of the contract with the amount of P660,225.

b. The Group entered into lease agreement with Jasmine Banana, Inc for the land with a total land area of 18,510 sqm situated at the National Highway, Bunawan District, Davao City for a period of five (5) years, starting from January 1, 2021 and will expire on December 31, 2025. Rental rate for the leased premises is subject to 2.5% increase per annum. The continued use of the leased premises by the lessee upon expiration of the contract without written notice or renewal is allowed by the lessor, noting that this contract will be automatically renewed for one (1) year under the same terms and conditions.

c. The Group leases 133.50 sqm of laboratory space located at Km. 14, After Panacan Sub-Station, Panacan, Davao City. The term of lease cover two (2) years, starting on October 21, 2021 and will expire on October 30, 2023 which is the parties renewed for another two (2) years, starting October 21, 2023 to October 20, 2025. The rental shall be payable within the first five (5) days of the month with the rate of P33.857 subject to 5% increase per annum.

Security deposits paid by the Group as required under the terms and covering lease agreements amounted to ₱11,362 and ₱4,992 as at December 31, 2023 and 2022, respectively, which were recognized under "Prepaid expenses and other current assets" (see Note 10) and "Refundable security deposits" accounts in the statements of financial position.

Roll-forward of ROU assets related to the land and building are as follows:

| Particulars | 2023 | 2022 |
|---|---|---|
| **Cost** | | |
| Beginning balance | ₱ **104,546** | ₱ 52,023 |
| Additions | **446** | 63,091 |
| Disposals | **-** | (10,568) |
| Adjustment (reclassification) | **-** | - |
| Ending balance | **104,992** | 104,546 |
| **Accumulated depreciation** | | |
| Beginning balance | **79,676** | 19,383 |
| Depreciation | **71,021** | 70,863 |
| Disposals | **(65,014)** | (10,568) |
| Adjustment (reclassification) | **-** | - |
| Ending balance | **85,683** | 79,676 |
| Total | ₱ **19,309** | ₱ 24,870 |

The depreciation expense on ROU assets charged to cost of sales and services and operating expenses as follows:

| Particulars | 2023 | 2022 |
|---|---|---|
| Cost of sales | ₱ **57,002** | ₱ 46,939 |
| Cost of services | **10,835** | 18,254 |
| Operating expenses | **3,183** | 5,669 |
| Total | ₱ **71,020** | ₱ 70,862 |

Roll-forward in lease liabilities as follows:

| Particulars | 2023 | 2022 |
|---|---|---|
| Beginning balance | ₱ **27,553** | ₱ 34,340 |
| Additions | | 63,091 |
| Interest expense on lease liabilities | **3,608** | 4,223 |
| Changes from financing cash flows: | | - |
| Payment of principal | **(5,338)** | (69,878) |
| Payment of interest | **(3,608)** | (4,223) |
| Ending balances | ₱ **22,215** | ₱ 27,553 |

The following table sets out a maturity analysis of lease payments, showing undiscounted and discounted lease payments to be received after the reporting date:

| Particulars | 2023<br>Minimum lease payable | 2023<br>Interest | 2023<br>**Present value of MLP** |
|---|---|---|---|
| Within one year | ₱ 10,487 | ₱ 1,084 | ₱ **9,403** |
| Between one to five years | 15,336 | 2,524 | **12,812** |
| More than five years | - | - | **-** |
| Ending balances | ₱ 25,823 | ₱ 3,608 | ₱ **22,215** |

| Particulars | 2022<br>Minimum lease payable | 2022<br>Interest | 2022<br>Present value of MLP |
|---|---|---|---|
| Within one year | ₱ 8,504 | ₱ 1,827 | ₱ 6,677 |
| Between one to five years | 21,645 | 2,700 | 18,946 |
| More than five years | 2,011 | 81 | 1,930 |
| Ending balances | ₱ 32,160 | ₱ 4,608 | ₱ 27,553 |

Amounts recognized in profit or loss are as follows:

| Particulars | **2023** | 2022 |
|---|---|---|
| Interest on lease liabilities | ₱ **3,608** | ₱ 4,223 |
| Depreciation on ROU assets | **71,020** | 70,862 |
| Total | ₱ **74,628** | ₱ 75,085 |

Total cash outflows for leases amounted to ₱8,946 and ₱74,100 in 2023 and 2022, respectively.

Asset Sale Agreement

In May 2021 and August 2021, SCPC, SMPC and certain affiliates executed Asset Sale Agreement (ASA) with DPI, which was amended in December 2021. The asset sale agreement covered the purchase of parcels of land, machinery and equipment, motor vehicles, other assets and shared assets used in the Stanfilco Plants and Dolefil Box and Printing Plants. In the agreement. The SCPC will acquire Stanfilco Box Plant and Stanfilco machinery and equipment. SMPC will enter into long term supply agreement with DPI, and other affiliates will acquire other target assets listed in Schedule 2 of the ASA.

The SCPC has committed to purchase the allocated target assets with total purchase price of USD 9,383,761. As at November 29, 2022, the SCPC has completed the purchase of buildings and improvements, and machineries and equipment amounting to P484.038 million (inclusive of taxes).

Long-term Supply Agreement

In August 2021, the Company executed Asset Sale Agreement with Dole Philippines, Inc. (doing business under the name and style of among other, Dole Philippines and Dole Stanfilco) (DPI), which was amended in December 2021. The asset sale agreement covered parcels of land, machinery and equipment, motor vehicles, other assets and shared assets used in the Stanfilco Plants and Dolefil Box and Printing Plants. In the agreement, the assets will be acquired by SCPC and other affiliates while the Company will enter into long term supply agreement with DPI.

In January 2022, in relation to the Asset Sale Agreement, the Company entered into a long-term supply agreement with DPI to supply boxes, packaging materials, including parts thereof such as cartons, dividers, pods, lids, joints, walls, slots, panels, labels and other printed materials, made of paper, kraft, corrugated boxes and other paper related products. The long-term supply agreement has a term of nine years and six months beginning from August 24, 2022 until February 23, 2032. The agreement can be renewed subject to discussion of the parties.

The transition initiated on February 24, 2022, taking over operations under a tolling arrangement for six months. This period was extended to aid DPI in depleting its substantial inventory of paper rolls. Despite the extension, DPI continued to hold a considerable inventory, leading to an agreement with the Company to further extend the tolling arrangement until depletion or reaching an acceptable inventory level, albeit with liquidation fees considerations.

Valdes Abad & Company
*(Formerly: Valdes Abad & Associates)*
certified public accountants

CJV Building 108 Aguirre Street, Legaspi Village, Makati City, Philippines
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BOA/PRC Reg. No. 0314
SEC Accreditation No. 0314-SEC

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## INDEPENDENT PUBLIC AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and Board of Directors
**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
Gateway Business Park
Brgy. Javalera, General Trias, Cavite

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** as at December 31, 2023 and 2022 and have issued our report thereon dated April 19, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2023 and 2022 and no material exceptions were noted.

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 0314 - SEC, Group A
Valid for 2022 – 2026 audit periods

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 99805 - SEC, Group A
Valid for 2022 – 2026 audit periods

Makati City, Philippines
April 19, 2024

Valdes Abad & Company
*(Formerly: Valdes Abad & Associates)*
certified public accountants

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**REPORT OF INDEPENDENT PUBLIC AUDITORS
TO ACCOMPANY SEC SCHEDULES FILED SEPARATELY FROM THE
BASIC FINANCIAL STATEMENTS**

The Stockholders and Board of Directors
**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
Gateway Business Park
Brgy. Javalera, General Trias, Cavite

We have examined the consolidated financial statements of **STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES** as of December 31, 2023 on which we have rendered the attached report dated April 19, 2024. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules of the Company as of December 31, 2023 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**VALDES ABAD & COMPANY, CPAs**
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-000-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 0314 - SEC, Group A
Valid for 2022 – 2026 audit periods

**For the firm:**

**ALFONSO L. CAY-AN**
**Partner**
CPA Registration No. 99805, Valid until December 14, 2026
TIN No.
PTR No. 10081734, Issued Date: January 8, 2024, Makati City
BOA/PRC Reg. No. 0314
Issued on July 29, 2021, Valid until July 14, 2024
BIR Accreditation No. 08-002126-005-2024
Issued on April 5, 2024, Valid until April 4, 2027
SEC Accreditation No. 99805 - SEC, Group A
Valid for 2022 – 2026 audit periods

Makati City, Philippines
April 19, 2024

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**
**DECEMBER 31, 2023 and 2022**

| | | | |
|---|---|---|---|
| **I** | SUPPLEMENTAL SCHEDULES REQUIRED BY REVISED SRC RULE 68 ANNEX 68-J | | |
| | A | FINANCIAL ASSETS | Attached |
| | B | AMOUNTS RECEIVABLES FROM DIRECTORS OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES) | Attached |
| | C | AMOUNTS RECEIVABLES AND PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION PROCESS OF FINANCIAL STATEMENTS | Attached |
| | D | LONG-TERM DEBT | Attached |
| | E | INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED PARTIES) | Not applicable |
| | F | GUARANTEES OF SECURITIES OF OTHER ISSUERS | Not applicable |
| | G | CAPITAL STOCK | Attached |
| **II** | | Reconciliation of retained earnings available for dividend declaration | Attached |
| **III** | | Map of group of companies | Attached |
| **IV** | | Financial Soundness Indicators as required by Revised SRC Rule 68 Annex 68-E | Attached |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**DECEMBER 31, 2023**

| Name of Issuing Entity | Number of Shares | Amount Shown in the December 31, 2023 Consolidated Statements of Financial Position | Income Received and Accrued |
|---|---|---|---|
| ABOITIZ POWER CORP. | 360,000 | P13,573,000 | P84,150 |
| AYALA CORPORATION | 47,000 | 34,075,000 | 38,060 |
| AYALA LAND, INC. | 200,000 | 6,960,000 | 44,620 |
| BELLE CORPORATION | 250,000 | 292,500 | 15,000 |
| CHINA BANKING CORPORATION | 50,000 | 1,542,500 | 95,000 |
| CITICORE ENERGY REIT CORP | 200,000 | 514,000 | 38,200 |
| DDMP REIT INC. | 900,000 | 1,097,000 | 90,719 |
| DMCI HOLDINGS, INC. | 1,500,000 | 15,000,000 | 1,797,840 |
| DOUBLEDRAGON PROPERTIES CORP. | 100,000 | 817,000 | 26,240 |
| EAST WEST BANKING CORP. | 10,000 | 85,000 | 4,100 |
| MANILA ELECTRIC CO. | 26,216 | 10,460,184 | 512,470 |
| MANILA WATER CORPORATION, INC | 1,177,000 | 21,878,120 | 694,518 |
| METRO PACIFIC INV. CORP. | 1,500,000 | 7,770,000 | 1,463,501 |
| PHINMA CORPORATION | 120,500 | 2,458,200 | 101,325 |
| PLDT INC. | 1,100 | 1,409,400 | 118,800 |
| PREMIUM LEISURE CORP. | 1,380,000 | 910,800 | 69,331 |
| RIZAL COMMERCIAL BANKING CORP. | 13,800 | 317,400 | 14,904 |
| ROCKWELL LAND CORP | 45,700 | 64,437 | 0 |
| SYNERGY GRID & DEV. PHIL INC | 1,135,000 | 7,401,700 | 310,827 |
| SM PRIME HOLDINGS, INC. | 100,000 | 3,370,000 | 0 |
| UNIONBANK OF THE PHILIPPINES | 110,396 | 5,232,770 | 30,860 |
| | | **P135,229,011** | **P5,550,465** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLES FROM DIRECTORS OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**DECEMBER 31, 2023**
*(Amounts in Thousands)*

**December 31, 2023**

| Name and designation of debtor | Balance at beginning of period | Amounts (collected) /transferred | Amounts written-off | Current | Non-current | Balance at end of period |
|---|---|---|---|---|---|---|
| SMC employees | P122 | P- | P- | P122 | P- | P122 |
| Other related parties of SCPC | 92,394 | (91,571 | - | 823 | - | 823 |
| Other related parties of SMPC | 50,688 | 120,827 | - | 171,515 | - | 171,515 |
| | **P143,204** | **P29,256** | **P-** | **172,460** | **P-** | **172,460** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2023**
*(Amounts in Thousands)*

**December 31, 2023**

| Name and designation of Debtor | Beginning Balance | Additions (Collections) | Assignment / Condonation | Written Off | Current | Non-current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| Trade receivables | | | | | | | |
| SCPC | P196,524 | P90,437 | P- | P- | P286,961 | P- | P286,961 |
| Amounts owed by related party | | | | | | | |
| SCPC | 103,073 | 18,819 | - | - | 121,892 | - | 121,892 |
| SMPC | 24,250 | (12,125) | - | - | 12,125 | - | 12,125 |
| | **P323,847** | **P97,131** | **P-** | **P-** | **P420,978** | **P-** | **P420,978** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE D - LONG-TERM DEBT**
**DECEMBER 31, 2023**
*(Amount in thousands)*

**December 31, 2023**

| Title of issue | Amount authorized by indenture | Amount shown under caption “Current portion of long term debt | Amount shown under caption “Long term debt” in related balance sheet |
|---|---|---|---|
| Loans payable | | | |
| Omnibus Loan and Security Agreement (OLSA) | **P1,410,365** | **P942,134** | **P468,231** |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED PARTIES)**
**DECEMBER 31, 2023**
*(Amount in Thousands)*

| Name of related party | Balance at beginning of period | Balance at the end of the period |
|---|---|---|
| | **NOT APPLICABLE** | |

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**DECEMBER 31, 2023**

**DECEMBER 31, 2023**

| Name of issuing entity of securities guaranteed by the Company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

**NOT APPLICABLE**

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**SCHEDULE G – CAPITAL STOCK**
**DECEMBER 31, 2023**

**DECEMBER 31, 2023**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by: Related parties | Number of shares held by: Directors, officers and employees | Number of shares held by: Others |
|---|---|---|---|---|---|---|
| Common shares | 2,000,000,000 | 1,418,812,081 | - | 1,131,322,398 | 7 | 287,489,595 |

**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**AS REQUIRED BY REVISED SRC RULE 68 ANNEX 68-D**
**AS AT DECEMBER 31, 2023**
*(Amount in Thousands)*

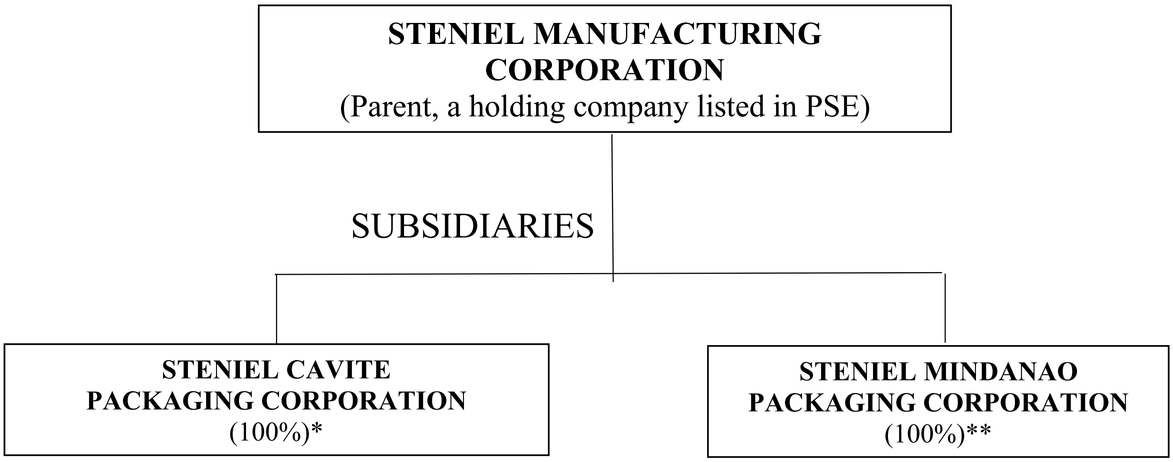
**STENIEL MANUFACTURING CORPORATION**
Gateway Business Park, Brgy. Javalera,
General Trias, Cavite, Philippines

| | |
|---|---|
| **Unappropriated Retained Earnings (Deficit), as adjusted to available for dividend distribution, beginning*** | **(P1,586,811)** |
| **Net income actually earned during the period** | |
| Net loss during the period closed to Retained Earnings (Deficit) | **117,782** |
| **Unappropriated Retained Earnings (Deficit) available for dividend declaration, ending**** | **(P1,469,029)** |

**According to Section 5 of SEC Memorandum Circular No.11 (Series of 2008), a corporation cannot declare dividends when it has zero or negative Retained Earnings (otherwise known as Deficit).*
***Pursuant to the Restated and Amended Omnibus Agreement signed by the Company (as borrower) and lenders/creditor in October 2010, the Company is prohibited from declaring dividends to its owners until full payment of all amounts payable, unless consented in writing by the lenders/creditors.*

**STENIEL MANUFACTURING CORPORATION**
**AND SUBSIDIARIES**

**MAP OF CONGLOMERATE**




**Treasure Packaging Corporation is a wholly-owned subsidiary of Steniel Manufacturing Corporation (STN) which was merged with Steniel Cavite Packaging Corporation effective May 30, 2018.*
***Steniel Mindanao Packaging Corporation was acquired by STN on December 29, 2020*

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**
**Gateway Business Park,**
**Brgy. Javalera, General Trias, Cavite, Philippines**

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

| Ratio | Formula | **As of December 31, 2023** | As of December 31, 2022 |
|---|---|---|---|
| Liquidity: | | | |
| Current Ratio | Current Assets / Current Liabilities | **1.16** | **1.10** |
| Solvency: | | | |
| Debt to Equity Ratio | Total Liabilities (Current + Noncurrent) / Equity | **3.78** | **4.37** |
| Asset to Equity Ratio | Total Assets (Current + Noncurrent) / Equity | **4.78** | **5.37** |
| Profitability: | | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | Net Income Attributable to Equity Holders of the Parent Company / Average Equity Attributable to Equity Holders of the Parent Company | **49%** | **1%** |
| | | **For the year ended December 31, 2023** | For the year ended December 31, 2022 |
| Operating Efficiency: | | | |
| Operating Margin | Income from Operating Activities / Net Sales | **3%** | 2% |
| Return on Equity | Net Income / Equity | **13%** | 6% |
| Return on Assets | Net Income / Total Assets | **3%** | 1% |