

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

G	A	T	E	W	A	Y	B	U	S	I	N	E	S	S	P	A	R	K	,											
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(Business Address: No. Street City / Town / Province)

<b>Eliza C. Macuray</b>
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Contact Person

<b>+632361-9061</b>
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Company Telephone Number

1	2	3	1
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Month      Day  
Fiscal Year

1	7	-	Q	
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FORM TYPE

<b>Last Tuesday of April</b>
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Month      Day  
Annual Meeting

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Secondary License Type, If Applicable

C	F	D
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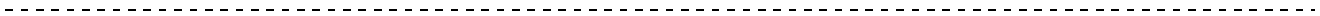
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Amended Articles Number/Section

3	6	2	4
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Total No. of Stockholders

Total Amount of Borrowings	
-	-
Domestic	Foreign



To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

\_\_\_\_\_ Cashier

<b>STAMPS</b>
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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)

**March 31, 2022**  
Period Date Ended

**Not Applicable**  
Secondary License Type and File Number

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 fiscal year ended **March 31, 2022**
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	1,418,821,081

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

Yes [] No []

The Company's 876,182,045 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 []

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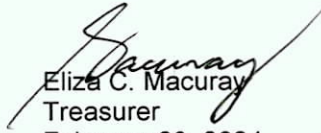
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## SIGNATURES

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 : February 23, 2024

Signature :  Eliza C. Macuray  
Title : Treasurer  
Date : February 23, 2024

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands, Except Basic and Diluted Earnings Per Share)

	<b>31-Mar-22</b>	<b>31-Dec-21</b>	<b>31-Mar-21</b>
	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>
<b>Revenues</b>			
Service Income	36,130	45,216	18,633
Product Sales	282,176	1,231,289	271,807
<b>Total revenues</b>	<b>318,306</b>	<b>1,276,505</b>	<b>290,440</b>
Cost of sales and services	(290,825)	(1,139,846)	(260,441)
<b>Gross profit</b>	<b>27,481</b>	<b>136,659</b>	<b>29,999</b>
Operating expenses	(42,779)	(115,079)	(13,194)
Finance charges	(5,739)	(14,814)	-
Other income (expenses), net	3,268	12,183	(2,968)
<b>Income provision for income tax</b>	<b>(17,769)</b>	<b>18,949</b>	<b>13,837</b>
Income Tax Expense	-	(984)	(3,170)
<b>Net Income (Loss)</b>	<b>(17,769)</b>	<b>17,965</b>	<b>10,667</b>
<b>Other Comprehensive Income (Loss)</b>			
Item that may be reclassified to profit or loss			
Unrealized gain(loss) on financial assets at fair value through other comprehensive income	-	23,996	(2,124)
Remeasurement of defined benefit obligation	-	1,639	-
Income tax expense	-	(410)	-
Effect of changes in tax rate	-	(18)	-
	-	<b>25,207</b>	<b>(2,124)</b>
<b>Total Comprehensive Income (Loss)</b>	<b>(17,769)</b>	<b>43,172</b>	<b>8,543</b>
<b>Basic and Diluted Earnings (Loss)</b>			
<b>Per Common Share</b>	<b>(0.0125)</b>	<b>0.0127</b>	<b>0.0075</b>

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)

	31-Mar-22 Unaudited	31-Dec-21 Audited	31-Mar-21 Unaudited
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	128,117	65,853	33,395
Receivables - net	491,359	424,786	383,418
Inventories - net	910,257	642,676	767,352
Prepaid expenses and other current assets - net	143,008	132,946	115,648
	1,672,741	1,266,261	1,299,813
Asset held-for-sale	120,600	120,600	120,601
<b>Total Current Assets</b>	<b>1,793,341</b>	<b>1,386,861</b>	<b>1,420,414</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	947,725	546,092	325,774
Right-of-use asset - net	32,640	32,640	5,767
Investments in equity instruments	107,348	105,712	83,841
Advances to third party	-	-	1,060
Deferred tax asset	-	-	19,779
Other noncurrent assets	5,135	9,328	131,252
<b>Total Noncurrent Assets</b>	<b>1,092,848</b>	<b>693,772</b>	<b>567,473</b>
	<b>2,886,189</b>	<b>2,080,633</b>	<b>1,987,886</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade payables and other current liabilities	753,949	571,784	590,659
Amounts owed to related parties	67,622	67,622	161,034
Current portion of borrowings	694,997	521,747	631,567
Current portion of lease liabilities	6,755	6,755	4,104
Income tax payable	-	-	3,284
<b>Total Current Liabilities</b>	<b>1,523,323</b>	<b>1,167,908</b>	<b>1,390,648</b>
<b>Noncurrent Liabilities</b>			
Borrowings, net of current portion	597,702	130,401	
Lease liabilities - net of current portion	27,585	27,585	2,179
Retirement benefits liability	7,994	7,385	7,858
Deferred tax liabilities - net	16,075	16,075	-
<b>Total Noncurrent Liabilities</b>	<b>649,356</b>	<b>181,446</b>	<b>10,037</b>
<b>Total Liabilities</b>	<b>2,172,679</b>	<b>1,349,354</b>	<b>1,400,685</b>
<b>Equity</b>			
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	1,211	1,211	(256)
Net unrealized loss on investments in equity instruments	10,646	10,646	(12,454)
Deficit	(1,125,582)	(1,107,813)	(1,227,324)
<b>Total Equity</b>	<b>713,510</b>	<b>731,279</b>	<b>587,201</b>
	<b>2,886,189</b>	<b>2,080,633</b>	<b>1,987,886</b>

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)

	<b>31-Mar-22</b>	<b>31-Dec-21</b>	<b>31-Mar-21</b>
	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>
<b>Capital stock</b>			
Authorized – 1 billion common shares P1 per share			
Issued and outstanding	<b>1,418,812</b>	<b>1,418,812</b>	<b>1,418,812</b>
<b>Additional paid-in capital</b>			
	<b>408,423</b>	<b>408,423</b>	<b>408,423</b>
<b>Reserve for retirement benefits liability</b>			
Beginning	1,211	-	(256)
Reserve for retirement benefits liability	-	1,211	-
	<b>1,211</b>	<b>1,211</b>	<b>(256)</b>
<b>Net unrealized loss on investments in equity instruments</b>			
Beginning	10,646	(10,330)	(10,330)
Changes in fair value of investments in equity instruments	-	23,996	(2,124)
Transfer of fair value reserve of equity instruments designated at FVOCI	-	(3,020)	-
	<b>10,646</b>	<b>10,646</b>	<b>-12,454</b>
<b>Deficit</b>			
Beginning	(1,107,813)	(1,128,798)	(1,237,991)
Net income(loss) during the year	(17,769)	17,965	10,667
Transfer of fair value reserve of equity instruments designated at FVOCI	-	3,020	-
	<b>(1,125,582)</b>	<b>(1,107,813)</b>	<b>(1,227,324)</b>
<b>Total Stockholders' Equity</b>	<b>713,510</b>	<b>731,279</b>	<b>587,201</b>



**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

	<b>31-Mar-22</b> <b>Unaudited</b>	<b>31-Dec-21</b> <b>Audited</b>	<b>31-Mar-21</b> <b>Unaudited</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	(17,769)	18,949	10,667
Adjustments for:			
Depreciation	13,980	122,442	20,112
Allowance for impairment losses on receivables	-	20,814	-
Reversal of provision for inventory obsolescence	-	15,388	-
Interest expense	5,739	12,239	-
Dividend income	(114)	(5,715)	(2,142)
Interest on lease	-	2,575	-
Retirement expense	609	1,450	-
Unrealized foreign exchange loss(gain)	(3,123)	1,009	-
Interest income	(9)	(25)	(2)
Operating income before working capital changes	(687)	158,350	28,635
Decrease(increase) in:			
Receivables	(66,573)	(109,144)	(46,962)
Inventories	(267,581)	38,722	(95,986)
Prepaid expenses and other current assets	(10,062)	(31,286)	(118,578)
Increase(decrease) in:			
Trade payables and other current liabilities	182,165	90,135	207,499
Net cash generated from operations	51,595	(237,980)	(25,392)
Interest paid	(5,739)	(12,239)	-
Dividend received	114	5,715	2,142
Benefits paid	-	(284)	-
Interest received	9	25	2
Net cash provided by operating activities	<b>(168,354)</b>	<b>139,994</b>	<b>(23,248)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	(415,613)	(168,707)	(17,410)
Proceeds from sale of investments in equity instruments	3,329	17,951	-
Additions to investments in equity instruments	(4,965)	(15,826)	(2,123)
Decrease in other noncurrent assets	4,193	5,942	-
Net cash provided by (used in) investing activities	<b>(413,056)</b>	<b>(160,640)</b>	<b>(19,533)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan availment	640,551	769,139	-
Payments of borrowings	-	(654,247)	-
Increase (decrease) in amounts owed to related parties	-	(61,012)	32,400
Payment of finance lease liability	-	(8,582)	-
Interest paid on leases	-	(2,575)	-
Net cash provided by (used in) financing activities	<b>640,551</b>	<b>42,723</b>	<b>32,400</b>
<b>EFFECTS OF FOREIGN EXCHANGE</b>			
<b>RATE ON CASH</b>	<b>3,123</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH</b>	<b>62,264</b>	<b>22,077</b>	<b>(10,381)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>65,853</b>	<b>43,776</b>	<b>43,776</b>
<b>CASH END OF YEAR</b>	<b>128,117</b>	<b>65,853</b>	<b>33,395</b>

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND YEAR ENDED DECEMBER 31, 2021

**1. Corporate 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 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%
	<b>649,908,308</b>	<b>64.99%</b>

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 March 31, 2022 and December 31, 2021, 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.

	Percent of Ownership	
	2022	2021
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 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 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. 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 March 31, 2022, and December 31, 2021, SMPC is a wholly owned subsidiary of the Parent Company.

The registered address which is also its principal place of business of SMPC is located at Km. 25 National Highway, Bunawan District, Davao City.

### 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 through 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 on the sixteenth (16<sup>th</sup>) year and onwards.
- Restructured outstanding principal will be subject to interest of 6% per annum for 15years and 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 the Parent Company 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 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 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 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 remaining assignment of shares is still for finalization with buyers to meet the regulatory requirements on transfer of assets as at reporting date and this is expected to be completed in 2022 after the issuance of Certificate Authorizing Registration (CAR) by the BIR. 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.

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 were 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 16). The outstanding balance of the borrowings were reduced by P149.56 million as a result of the debt-to-equity conversion.

#### 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 the Parent 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 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 at March 31, 2022 and December 31, 2021, Greenkraft holds 70.77% interest in SLC while the remaining interest of SCPC is 29.21%.

### 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<sup>th</sup> 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 P1,126 million and P1,108 million, as at March 31, 2022 and December 31, 2021, 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 16).

On December 29, 2020, upon the SEC's approval of the Parent Company's application for 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 provisional gain of P158.27 million from the acquisition of a subsidiary (Note 5). The realization of these transactions resolved the capital deficiency position of the Group as at March 31, 2022 and December 31, 2021.

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.

	<b>Percent of Ownership</b>	
	<b>2022</b>	<b>2021</b>
Steniel Cavite Packaging Corporation (SCPC)*	<b>100</b>	100
Steniel Mindanao Packaging Corporation (SMPC)**	<b>100</b>	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.

#### Adoption of Amendments to Standards and Interpretations

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, 2021.

- *Amendments to PFRS 16, Leases (COVID-19-Related Rent Concessions).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. The practical expedient will only apply if:
  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before December 31, 2021; and
  - no other substantive changes have been made to the terms of the lease.

Leases applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

#### Standards Issued but Not Yet Adopted

A number of amendments to standards, and framework are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing the consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the consolidated financial statements.

#### *Effective April 1, 2021*

- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16 Leases)*. The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

#### *Effective January 1, 2022*

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16 Property, Plant and Equipment)*. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 Inventories.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the Group to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the Group first applies the amendments.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets)*. The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS 2018-2020 Cycle.* This cycle of improvements contains amendments to four standards, of which, only the following are applicable to the Group:
  - *Fees in the “10 percent” Test for Derecognition of Financial Liabilities* (Amendment to PFRS 9, Financial Instruments). This amendment clarifies that - for the purpose of performing the “10 percent” for derecognition of financial liabilities - in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.
  - *Lease Incentives* (Amendment to Illustrative Examples Accompanying PFRS 16, Leases). The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- *Reference to the Conceptual Framework* (Amendment to PFRS 3, Business Combination). The amendments:
  - Updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;
  - Added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, Levies, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
  - Added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022, with earlier adoption permitted.

#### *Effective January 1, 2023*

- *Classification of Liabilities as Current or Noncurrent* (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 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if an entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; 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 apply retrospectively for annual reporting periods beginning on or after January 1, 2023, with early application permitted.

In November 2021, the International Accounting Standards Board issued the Exposure Draft, Non-Current Liabilities with Covenants after considering stakeholder feedback on the December 2020

tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend PAS 1 as follows:

- conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current;
  - additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months; and
  - separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.
  - The effective date of the amendments will be deferred to no earlier than January 1, 2024.
- Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors). To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, Making Materiality Judgements). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:
- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

The amendments are effective from January 1, 2023. Earlier application is permitted.

### 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 is 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 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 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 sales 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 March 31, 2022 and December 31, 2021.

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 its 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 March 31, 2022, and December 31, 2021, 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 asset 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.

#### Impairment of Financial Assets

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 losses 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.

### Inventories

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 losses 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 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.

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.

## Foreign Currency Transactions and Translation

### *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.

## Taxes

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 be utilized, 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 recovered.

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 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.

#### 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 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.

*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 March 31, 2022 and December 31, 2021.

*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 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.

## Estimates and Assumptions

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 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 for ECL on other financial assets at amortized cost was recognized in 2022 and 2021. The carrying amounts of other financial assets at amortized cost are as follows:

	<b>Note</b>	<b>31-Mar-2022</b>	31-Dec-2021
Cash in banks	6	<b>P128,077</b>	P65,853
Receivables	7	<b>491,359</b>	424,786
Refundable security deposits	9, 13	<b>6,535</b>	6,925
		<b>P625,971</b>	P497,564

*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 March 31, 2022 and December 31, 2021, 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 2022 and 2021.

## **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).

Total final amounts of assets acquired and liabilities assumed at acquisition date amounted to P1,590,290 and P1,053,581, respectively. Final amount of gain on acquisition amounted to P267,459.

### Receivables

The fair value of receivables amounted to P336.333 million. The gross amount of Receivables is P344.980, of which P8.646 million is expected to be uncollectible as at the acquisition date.

## Acquisition-related Costs

The Group incurred acquisition-related costs which have been included in the "Operating expenses" account in the consolidated statements of comprehensive income.

## 6. Cash

This account consists of:

	<b>31-Mar-2022</b>	31-Dec-2021
Cash in banks	<b>P128,077</b>	P65,813
Cash on hand	<b>40</b>	40
	<b>P128,117</b>	P65,853

## 7. Receivables

This account consists of:

	<b>31-Mar-2022</b>	31-Dec-2021
Trade receivables	<b>372,974</b>	P462,235
Non-trade receivables	<b>183,326</b>	27,492
	<b>556,300</b>	489,727
Less allowance for impairment losses on:		
Trade receivables - third parties	<b>(64,941)</b>	(64,941)
	<b>P491,359</b>	P424,786

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:

	<b>31-Mar-2022</b>	31-Dec-2021
Balance at beginning of year	<b>P64,941</b>	P35,480
Allowance on receivables assumed from SMPC	-	8,647
Allowance during the year	-	20,814
Balance at end of year	<b>P64,941</b>	64,941

## 8. Inventories

Inventories stated at lower of cost and NRV consist of:

	<b>31-Mar-2022</b>	31-Dec-2021
Raw Materials	<b>781,023</b>	549,309
Work-in-process	<b>15,735</b>	13,426
Materials and supplies	<b>118,280</b>	81,586

Finished goods	<b>18,078</b>	21,214
	<b>933,116</b>	665,535
Less allowance for inventory write-down	<b>22,859</b>	22,859
	<b>910,257</b>	642,676

Inventories are held by SMPC. Allowance for inventory write down in 2021 pertains to damaged raw materials and unusable or obsolete material and supplies.

In 2021, SMPC had reversal of previously recognized inventory write-down pertaining to certain inventory used in production and certain inventories capitalized to machineries amounting to P10.031 million and 5.537 million, respectively.

## 9. Prepaid Expenses and Other Current Assets

This account consists of:

	<b>31-Mar-2022</b>	31-Dec-2021
Input VAT – net	<b>70,441</b>	57,145
Prepaid taxes	<b>3,520</b>	50,956
Creditable withholding taxes	<b>48,086</b>	
Prepaid importation charges	<b>11,077</b>	17,695
Refundable security deposits	<b>4,929</b>	5,299
Advances to suppliers	<b>1,843</b>	1,843
Prepaid insurance	<b>823</b>	349
Other prepayments	<b>4,132</b>	1,502
	<b>144,851</b>	134,789
Less allowance for impairment losses and unrecoverable prepaid taxes	<b>1,843</b>	1,843
	<b>143,008</b>	132,946

Input VAT represents accumulated input taxes from purchases of goods and services for business operations which can be applied against future output VAT.

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.

## 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.

The carrying amount related to the shares of SCPC in SLC amounted to P120.600 million, the transfer of which is expected to be completed in 2022.

The movements and balances of the asset held-for-sale as at March 31, 2022, and December 31, 2021 are as follows:

<b>Cost</b>	
January 1, 2010	P417,779
<b>Accumulated Share in Net Losses</b>	
January 1, 2010	(28,013)
Share in financial performance for the year	(55,197)
	(83,210)
Allowance for impairment	(199,958)
Carrying amount reclassified as asset held-for-sale in 2010	134,611
Assigned/written-off in 2012	(13,762)
Disposal	(249)
<b>Asset Held-for-Sale</b>	
<b>March 31, 2022, and December 31, 2021</b>	<b>P120,600</b>

## 11. Property and Equipment

The movements and balances of property and equipment as at March 31, 2022 and December 31, 2021 are as follows:

	Note	Land	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Building and Improvements	Construction in Progress	Total
<b>Cost</b>									
January 1, 2021		P67,539	P366,416	P34,610	P11,402	P4,460	P-	P73,128	P557,555
Additions		117,511	7,131	527	-	813	-	42,725	168,707
Reclassifications		-	-	-	(350)	-	-	-	(350)
Disposals		-	-	2,971	-	959	-	(6,984)	5,357
December 31, 2021		185,050	373,547	38,108	11,052	6,232	-	108,869	731,269
Additions		-	224,092	926	2,767	284	208,074	422	430,6566
Reclassifications		-	-	-	-	-	-	-	-
Disposals		-	-	-	-	-	-	-	-
<b>March 31, 2022</b>		<b>185,050</b>	<b>597,639</b>	<b>39,034</b>	<b>13,819</b>	<b>6,516</b>	<b>208,074</b>	<b>109,291</b>	<b>116,7835</b>
<b>Accumulated Depreciation and Amortization</b>									
January 1, 2021		-	72,551	-	-	604	-	-	73,155
Depreciation	17,18	-	92,108	13,220	4,602	2,442	-	-	112,372
Disposals		-	-	-	(350)	-	-	-	(350)
December 31, 2021		-	164,659	13,220	4,252	3,046	-	-	185,177
Depreciation	17,18	-	20,434	2,314	511	521	11,153	-	34,933
Disposals		-	-	-	-	-	-	-	-
<b>March 31, 2022</b>		<b>-</b>	<b>185,093</b>	<b>15,534</b>	<b>4,763</b>	<b>3,567</b>	<b>11,153</b>	<b>-</b>	<b>220,110</b>
<b>Carrying amount</b>									
December 31, 2021		P185,050	P217,299	P24,888	P6,800	P3,186	P-	P108,869	P546,092
<b>March 31, 2022</b>		<b>P185,050</b>	<b>P420,957</b>	<b>P23,501</b>	<b>P9,056</b>	<b>P2,949</b>	<b>P196,920</b>	<b>P109,291</b>	<b>P947,725</b>

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 (Note 15).

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 March 31, 2022, the aggregate carrying amount and fair value of mortgaged land and improvements amounted to P226.887 million and P287.152 million, respectively.

## 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:

	31-Mar-2022	31-Dec-2021
<b>Cost</b>		
Balance at beginning of year	P95,066	P94,171
Additions	4,965	15,826
Disposals	(3,329)	(14,931)
Balance at end of year	96,702	95,066
<b>Changes in Fair Value</b>		
Balance at beginning of year	10,646	(10,330)
Changes in fair value	-	23,996
Transfers of fair value reserve for investments in equity instruments designated at FVOCI	-	(3,020)
Balance at end of year	10,646	10,646
	<b>P107,348</b>	<b>P105,712</b>

## 13. Other Noncurrent Assets

This account consists of:

	31-Mar-2022	31-Dec-2021
Deferred input VAT	P3,529	P7,701
Refundable security deposits	1,606	1,626
	<b>P5,135</b>	<b>P9,327</b>

#### 14. Trade Payables and Other Current Liabilities

This account consists of:

	31-Mar-2022	31-Dec-2021
Trade payables	P509,379	P413,884
Advances from customers	79,388	70,062
Accrued expenses	127,234	72,285
Payable to government agencies	25,847	7,554
Others	12,102	7,999
	<b>P753,950</b>	<b>P571,784</b>

#### 15. Loans and Borrowings

This account consists of:

	31-Mar-2022	31-Dec-2021
Short-term loans	P504,997	P331,747
Current portion for long-term loans:		
Greenkraft Corporation	190,000	190,000
	<b>694,997</b>	<b>521,747</b>
Net of current portion:		
Local bank loan	597,702	130,401
	<b>1,292,699</b>	<b>P652,148</b>

##### 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, 2021, 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 November 3, 2022, 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, 2021.

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 (Note 16).

## 16. Equity

### Capital Stock

Capital stock as at March 31, 2022, and December 31, 2021 consists of:

	No. of Common Shares	Par Value Per Share	Amounts in Thousand
<b>Authorized</b>	<b>2,000,000,000</b>	<b>1</b>	<b>P2,000,000</b>
<b>Issued and Outstanding</b>	<b>1,418,812,081</b>	<b>1</b>	<b>P1,418,812</b>

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 STN. 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).

To accommodate the transactions discussed above, the BOD and Stockholders approved the amendment of the A01 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 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 123,818,000 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(Loss) Per Share

Basic earnings per common share in centavos for the 3 months ended March 31, 2022, and year ended December 31, 2021 is calculated as follows:

	31-Mar-2022	31-Dec-2021
Net income(loss)	(P17,769)	P17,965
Divided by weighted average number of common shares, in thousands	1,418,812	1,002,295
<b>Basic and diluted earnings(loss) per share</b>	<b>(P0.0125)</b>	<b>P0.2998</b>

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. Cost of Sales and Services

This account consists of:

	<i>Note</i>	<b>31-Mar-2022</b>	31-Dec-2021
<b>Cost of sales</b>			
Raw materials, beg		<b>P549,309</b>	P606,695
Add: Purchases		<b>431,660</b>	759,385
Total raw materials		<b>980,969</b>	1,366,080
Less: Raw materials, end	8	<b>(781,023)</b>	(549,309)
Raw materials used		<b>199,946</b>	816,771
Direct labor		<b>5,148</b>	22,935
Factory overhead		<b>64,270</b>	213,122
Total manufacturing cost		<b>269,364</b>	1,052,828
Add: Work-in-process, beg		<b>13,427</b>	16,708
Total goods available for manufacturing		<b>282,791</b>	1,069,536
Less: Work-in-process, end	8	<b>(15,735)</b>	(13,427)
Total goods manufactured		<b>267,056</b>	1,056,109
Add: Finished goods, beg		<b>21,214</b>	14,404
Total goods available for sale		<b>288,270</b>	1,070,513
Less: Finished goods, end	8	<b>(18,078)</b>	(21,214)
		<b>270,192</b>	1,049,299
<b>Cost of services</b>			
Materials used		<b>6,749</b>	23,323
Depreciation and amortization	11	<b>3,914</b>	31,591
Indirect labor		<b>2,962</b>	8,279
Utilities		<b>2,099</b>	6,369
Salaries, wages and benefits		<b>2,002</b>	8,919
Supplies		<b>875</b>	3,709
Outside services		<b>654</b>	2,048
Repairs and maintenance		<b>524</b>	2,393
Insurance		<b>468</b>	1,820
Warehousing cost		<b>274</b>	1,834
Fuel and oil		<b>52</b>	153
Taxes and licenses		<b>8</b>	48
Rent		<b>-</b>	60
Others		<b>52</b>	-
		<b>20,633</b>	90,546
		<b>P290,825</b>	P1,139,846

Details of factory overhead for the years ended

	<i>Note</i>	<b>31-Mar-2022</b>	31-Dec-2021
Indirect materials used		<b>P17,355</b>	P59,974
Rent		<b>16,362</b>	-
Depreciation and amortization	11	<b>10,065</b>	84,612
Indirect labor		<b>7,618</b>	21,288
Utilities		<b>5,397</b>	16,379
Supplies		<b>2,251</b>	9,538
Outside services		<b>1,682</b>	6,153
Repairs and maintenance		<b>1,348</b>	5,267
Insurance		<b>1,203</b>	4,716
Warehousing cost		<b>705</b>	4,679
Fuel and oil		<b>133</b>	393
Taxes and licenses		<b>22</b>	123
Others		<b>129</b>	-
<b>Total</b>		<b>P64,270</b>	P213,122

### 18. Operating Expenses

This account consists of:

	<i>Note</i>	<b>31-Mar-2022</b>	31-Dec-2021
Depreciation	11	<b>P20,953</b>	P6,239
Delivery expense		<b>8,589</b>	30,973
Salaries, wages and employee benefits		<b>3,837</b>	12,057
Taxes and Licenses		<b>2,880</b>	15,764
Professional fees and outside services		<b>1,928</b>	22,421
Representation and entertainment		<b>972</b>	2,621
Utilities		<b>625</b>	1,933
Transportation		<b>530</b>	868
Insurance		<b>412</b>	1,569
Repairs and maintenance		<b>298</b>	11,361
Rent		<b>280</b>	-
Listing Fees		<b>250</b>	250
Office and Computer supplies		<b>219</b>	718
Fuel and oil		<b>141</b>	694
Membership dues		<b>78</b>	-
Provision for impairment	7	-	20,814
Reversal of previously recognized inventory write-down	8	-	(15,388)
Miscellaneous		<b>787</b>	2,185
		<b>P42,779</b>	P115,079

## 19. Other Income (Charges)

This account consists of:

	31-Mar-2022	31-Dec-2021
Interest Income	P9	P25
Dividend Income	114	5,715
Realized gain/loss on change in foreign exchange rate	3,123	6,299
Others	22	145
	<b>P3,268</b>	<b>P12,184</b>

## 20. 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.

## **21. 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.

	Note	31-Mar-2022	31-Dec-2021
Cash in banks	6	<b>P128,077</b>	P65,813
Receivables - gross	7	<b>554,018</b>	489,727
Refundable security deposits	9, 13	<b>6,535</b>	6,925
		<b>P688,630</b>	P562,465

The table below shows the credit quality of the Group's financial assets as at:

March 31, 2022	High Grade	Medium Grade	Low Grade	Total
Cash in banks	<b>P128,077</b>	P -	P -	<b>P128,077</b>
Receivables		<b>489,077</b>	<b>64,941</b>	<b>554,018</b>
Refundable security deposits		<b>6,535</b>		<b>6,535</b>
	<b>P128,077</b>	<b>P495,612</b>	<b>P64,941</b>	<b>P688,630</b>

December 31, 2021	High Grade	Medium Grade	Low Grade	Total
Cash in banks	P65,813	P -	P -	P65,813
Receivables		424,786	64,941	489,727
Refundable security deposits		6,925		6,925
	P65,813	P431,711	P64,941	P562,465

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.

### 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*

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-term 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.

## **22. Other Matters**

### Effect of Corona Virus Disease 2019 (COVID-19)

Since the beginning of 2020, the Philippines, along with many other countries in the world, has been experiencing a pandemic in the cases of COVID-19. This pandemic has impacted working arrangements, specific industries and overall business climate in the country due to the efforts taken by the government to minimize and mitigate the local transmission of COVID-19 amongst its citizens.

The Group, whose activity is limited to rental of properties, has not been significantly affected by the aforesaid declaration. The Group however, granted SMPC, its lessee, a four-month rent-free period in 2020, consequently decreasing rent income by P20.00 million.

Currently, the Group does not foresee that this prevailing norm brought about by COVID-19 will have any going concern issue which will affect the Group's ability to continue its operations.

## 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 1st quarter of 2022 was recorded at Peso 318.306 million consisting of Peso 282.176 million products sales and service income of Peso 36.130 million. The leasing income from the remaining machineries contributed Peso 7 million to the revenue of the company. Terms and conditions of the rental agreement will be maintained for a period of one year and renewable at the end of the contract period

**Operating expenses** Operating cost expenses on a consolidated basis was kept sustainably controlled at its minimum.

**Financial ratios** Consolidated total assets as at March 31, 2022 amounted to Peso 2,886.189 million while current assets as at the same reporting date totaled Peso 1,793.341 million. The increase was mainly due to the business combination brought by SMPC, the manufacturing company in Davao. Consequently, consolidated total liabilities as at March 31, 2022 amounted to Peso 2,172.679 million while current liabilities as at the same reporting date last year totaled Peso 1,523.323 million. Principal obligations are being settled as they fall due in accordance with the amortization schedule. Working capital ratio for the current quarter is 1.18. Working capital ratio is computed as the ratio of current assets over current liabilities. Debt-to-equity ratio is at 3.05. 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 March 31		As at December 31		Increase (Decrease)	
	2022		2021		Amount	%
Total Assets	₱	2,886,189	₱	2,080,633	₱	805,556 38.72%
Current Assets		1,793,341		1,386,861		406,480 29.31%
Total Liabilities		2,172,679		1,349,354		823,325 61.02%
Current Liabilities		1,523,323		1,167,908		355,415 30.43%
Interest-bearing Loans		1,292,699		652,148		640,551 98.22%
Equity		713,510		731,279		(17,769) -2.43%
Consolidated Statements of Comprehensive Income						
	For the 3 months ended March 31				Increase (Decrease)	
	2022		2021		Amount	%
Revenues (gross)	₱	318,306	₱	290,440	₱	27,866 9.59%
Gross Profit		27,481		29,999		(2,518) -8.39%
General & administrative expenses		42,779		13,194		29,585 224.23%
Earnings Before Interest, Taxes, Dep'n. & Amort.		22,903		33,949		(11,046) -32.54%
Profit / (Loss) before tax		(17,769)		13,837		(31,606) -228.42%
Profit / (Loss) after tax		(17,769)		10,667		(28,436) -266.58%
Total Comprehensive Income (loss)		(17,769)		8,543		(26,312) -307.99%

Consolidated Cash Flows	For the 3 months ended March 31		Increase (Decrease)	
	2022	2021	Amount	%
	Net Cash from Operating Activities	₱ (147,401)	₱ (23,248)	₱ (124,153)
Net Cash from Investing Activities	(434,009)	(19,533)	(414,476)	2121.93%
Net Cash from Financing Activities	640,551	32,400	608,151	1877.01%

Key Performance Indicators	For the 3 months ended March 31	As at Dec-31
	2022	2021
Current Ratio	1.18	1.19
Quick Ratio	0.49	0.52
Solvency Ratio	1.33	1.54
Debt Ratio	0.75	0.65
Debt-to-Equity Ratio	3.05	1.85
Interest coverage ratio	3.99	7.23
Asset to Equity Ratio	4.05	2.85
Gross Profit Margin	0.09	0.11
Net Profit Margin	(0.0558)	0.0141
Return on Assets	(0.0062)	0.0086
Return on Equity	(0.0249)	0.0246
Book value per share	0.5029	0.5154

## 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.

As at March 31, 2022 and December 31, 2021, SNHBV owns 5% interest in STN.

### Structure

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries incorporated in the Philippines.

	<b>Percent of Ownership</b>	
	<b>2022</b>	<b>2021</b>
Steniel Cavite Packaging Corporation (SCPC)*	<b>100</b>	100
Steniel Mindanao Packaging Corporation (SMPC)**	<b>100</b>	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 P1,126 million and P1,108 million, at March 31, 2022 and December 31, 2021, 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 16).

On December 29, 2020, upon the SEC's approval of the Parent Company's application for 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 provisional gain of P158.27 million from the acquisition of a subsidiary (Note 5). The realization of these transactions resolved the capital deficiency position of the Group as at March 31, 2022 and December 31, 2021.

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 1st quarter of 2022 generated Peso 318,306 million mainly revenue from the leasing activity amounted to Peso 7 million.

Cost of sales on product sales and services recorded amounting to Peso 290,825 million.

Operating cost and expenses on a consolidated basis for the three months ended March 31, 2022 increased to Peso 29,585 million to support the manufacturing operation while the same period last year operating expenses at Peso 13,194. Operating cost was monitored at its minimum.

### 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 total assets as at March 31, 2022 amounted to Peso 2,886.189 million while current assets as at the same reporting date totaled Peso 1,793.341 million. The increase was mainly due to the share swap of Steniel Mindanao Packaging Corporation as of December 31, 2020. Consequently, consolidated total liabilities as at March 31, 2022 totaled Peso 2,172.679 million while current liabilities as at the same reporting date last year totaled Peso 1,523.323 million. Principal obligations are being settled as they fall due. In accordance with the amortization schedule. Working capital ratio for the current quarter is 1.18.

Future expansions 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**  
**Receivables and Prepaid Expenses**  
**As at March 31, 2022**  
**In Thousands**

**Receivables**

Trade Receivables	
1 to 60 days	215,726
61 to 120 days	53,804
Over 120 days	103,444
	<hr/>
	372,974
Allowance for impairment losses	(64,941)
	<hr/>
Net	308,033
Other receivables	183,326
	<hr/>
Total	<b>491,359</b>

**Prepaid expenses and other current assets**

Creditable withholding taxes	48,086
Input VAT	70,441
Other Prepayments	26,324
	<hr/>
	144,851
Allowance for impairment losses	(1,843)
	<hr/>
Net	<b>143,008</b>
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Total Net	<b>634,367</b>