



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **INTEGRATED MICRO-ELECTRONICS, INC.** will be held at Karangalan Multi-Purpose Hall, Integrated Micro-Electronics, Inc., North Science Avenue, Laguna Technopark, Biñan, Laguna, on **Friday, April 13, 2018 at 9:00 o'clock in the morning** with the following

A G E N D A¹

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. Approval of the Increase of Authorized Capital Stock from PhP2.45Bn to PhP3.0Bn, and the corresponding Amendment of the Seventh Article of the Articles of Incorporation
5. Election of Directors (including the Independent Directors)
6. Election of External Auditor and Fixing of its Remuneration
7. Consideration of Such Other Business as May Properly Come Before the Meeting
8. Adjournment

Only stockholders of record at the close of business on **March 2, 2018** are entitled to notice of, and to vote at, this meeting.

This notice supersedes the notice filed on February 15, 2018 with the Securities and Exchange Commission and the Philippine Stock Exchange.

Makati City, February 21, 2018.

SOLOMON M. HERMOSURA
Corporate Secretary

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the herein proxy form and submit the same on or before **April 3, 2018** to the Office of the Corporate Secretary at 3/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. Validation of proxies shall be held on **April 5, 2018** at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

¹ See next page for the explanation for each agenda item.

EXPLANATION OF AGENDA ITEMS

Proof of notice and determination of quorum

The Corporate Secretary will certify the date the notice of the meeting was sent to all stockholders and the date of publication of the notice in newspapers of general circulation.

The Corporate Secretary will further certify the existence of a quorum. The stockholders present, in person or by proxy, representing a majority of the outstanding capital stock shall constitute a quorum for the transaction of business.

Approval of minutes of previous meeting

The minutes of the meeting held on April 7, 2017 are posted at the company website, www.global-imi.com. Copies of the minutes will also be distributed to the stockholders before the meeting.

A resolution approving the minutes will be presented to the stockholders for approval by the vote of the stockholders representing at least a majority of the outstanding stock present at the meeting.

Annual report

The Chairman, Mr. Jaime Augusto Zobel de Ayala, the Chief Executive Officer, Mr. Arthur R. Tan, and the President and Global Chief Operating Officer, Mr. Gilles Bernard, will deliver a report to the stockholders on the performance of the company in 2017 and the outlook for 2018. The financial statements as of December 31, 2017 (FS) will be embodied in the Information Statement to be sent to the stockholders at least 15 business days prior to the meeting.

A resolution noting the report and approving the audited financial statements will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding stock present at the meeting.

Approval of the Increase of Authorized Capital Stock from Php2.45Bn to Php3.0Bn, and the corresponding Amendment of the Seventh Article of the Articles of Incorporation

Approval by the stockholders will be sought to increase the authorized capital stock from Php2.45Bn to Php3.0Bn consisting of two billion eight hundred million (2,800,000,000) common shares and two hundred million (200,000,000) preferred shares, and to amend the Seventh Article of the Articles of Incorporation to reflect such increase. The increase in capital stock will provide the Company additional capital for its business development initiatives and operational expenses. The Board approved the increase and the corresponding amendment during its meeting on February 20, 2018.

A resolution on this agenda item must be approved by stockholders owning at least 2/3 of the outstanding capital stock.

Election of directors (including the independent directors)

Any stockholder may submit to the Nomination Committee nominations to the Board not later than February 27, 2018. The Nomination Committee will determine whether the nominees for directors, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board before submitting the nominees for election by the stockholders. The profiles of the nominees to the Board will be provided in the Information Statement and in the company website for examination by the stockholders.

Each stockholder entitled to vote may cast the votes to which the number of shares he owns entitles him, for as many persons as there are to be elected as directors, or he may give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of Directors to be elected. The eleven nominees receiving the highest number of votes will be declared elected as directors of the company.

Election of external auditor and fixing of its remuneration

The Audit Committee will endorse to the stockholders the election of an external auditor for the current fiscal year. The profile of the external auditor will be provided in the Information Statement and in the company website for examination by the stockholders.

A resolution for the election of the external auditor and for the approval of its remuneration will be presented to the stockholders for adoption by the affirmative vote of stockholders representing a majority of the outstanding stock present at the meeting.

Consideration of such other business as may properly come before the meeting

The Chairman will open the floor for comments and questions by the stockholders. Stockholders may raise other matters or issues that may be properly taken up at the meeting.

PROXY

The undersigned stockholder of **INTEGRATED MICRO-ELECTRONICS INC.** (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as *attorney-in-fact* and *proxy*, to represent and vote all shares registered in his/her/its name at the annual meeting of stockholders of the Company on April 13, 2018 and at any of the adjournments thereof for the purpose of acting on the following matters:

- | | |
|---|--|
| 1. Approval of minutes of previous meeting.
☐ Yes ☐ No ☐ Abstain | 5. Election of SyCip Gorres Velayo & Co. as the external auditor and fixing of its remuneration.
☐ Yes ☐ No ☐ Abstain |
| 2. Approval of Annual Report.
☐ Yes ☐ No ☐ Abstain | |
| 3. Approval of the Increase of Authorized Capital Stock from PhP2.45Bn to PhP3.0Bn, and the corresponding Amendment of the Seventh Article of the Articles of Incorporation.
☐ Yes ☐ No ☐ Abstain | 6. At his/her discretion, the proxy named above is authorized to vote upon such other matters as may properly come before the meeting.
☐ Yes ☐ No |

4. Election of Directors

No. of Votes

Jaime Augusto Zobel de Ayala	_____
Arthur R. Tan	_____
Gilles Bernard	_____
Fernando Zobel de Ayala	_____
Jose Ignacio A. Carlos	_____
Delfin L. Lazaro	_____
Jose Teodoro K. Limcaoco	_____
Rafael Ma. C. Romualdez	_____
<u>Independent Directors:</u>	
Edgar O. Chua	_____
Hiroshi Nishimura	_____
Sherisa P. Nuesa	_____

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 3, 2018**, THE DEADLINE FOR SUBMISSION OF PROXIES. FOR CORPORATE STOCKHOLDERS, PLEASE ATTACH TO THIS PROXY FORM THE SECRETARY'S CERTIFICATE ON THE AUTHORITY OF THE SIGNATORY TO APPOINT THE PROXY AND SIGN THIS FORM.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSES HIS INTENTION TO VOTE IN PERSON.

NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement
of
INTEGRATED MICRO-ELECTRONICS, INC.
(the “Registrant,” “Company” or “IMI”)
Pursuant to Section 20 of the Securities Regulation Code

1. Check the appropriate box:

☐ Preliminary Information Sheet
☒ Definitive Information Sheet

2. Name of Registrant as specified in its charter: INTEGRATED MICRO-ELECTRONICS, INC.

3. Province, country or other jurisdiction of incorporation or organization:

REPUBLIC OF THE PHILIPPINES

4. SEC Identification Number: 94419

5. BIR Tax Identification Code: 000-409-747-000

6. Address of Principal Office: North Science Avenue
Laguna Technopark-Special Economic Zone (LT-SEZ)
Bo. Biñan, Biñan, Laguna

7. Registered Business Address: North Science Avenue
Laguna Technopark-Special Economic Zone (LT-SEZ)
Bo. Biñan, Biñan, Laguna

8. Registrant’s telephone number, including area code: (632) 756-6840

9. Date, time and place of the meeting of security holders:

Date	-	April 13, 2018
Time	-	9:00 A.M.
Place	-	Karangalan Multi-Purpose Hall, Integrated Micro-Electronics, Inc., North Science Avenue, Laguna Technopark, Bo. Biñan, Biñan, Laguna

10. Approximate date on which the Information Statement is first to be sent or given to security holders:

March 19, 2018

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

a. Shares of Stock

<u>Title of Each Class</u>	<u>Par Value</u>	<u>No. of Shares</u>	<u>Amount</u>
Common	₱1.00	1,867,293,215 ¹	₱1,867,293,215.00

b. Debt Securities - None

12. Are any or all of registrant's securities listed in a Stock Exchange?

☒ Yes ☐ No

1,565,636,697¹ common shares are listed with the Philippine Stock Exchange ("PSE"), including 15,892,224 treasury shares.

* * *

¹ A total of 350,000,000 common shares were issued on March 2, 2018 as a result of the Company's stock rights offering. The shares have been listed with the Philippine Stock Exchange.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders (hereafter, the “annual stockholders’ meeting” or “meeting”)

- | | | | |
|----|---------------------|---|--|
| a. | Date | - | April 13, 2018 |
| | Time | - | 9:00 A.M. |
| | Place | - | Karangalan Multi-Purpose Hall,
Integrated Micro-Electronics, Inc.
North Science Avenue, Laguna Technopark,
Bo. Biñan, Biñan, Laguna |
| | Principal
Office | - | North Science Avenue
Laguna Technopark-Special Economic Zone (LT-SEZ)
Bo. Biñan, Biñan, Laguna |

- b. Approximate date when the Information Statement is first to be sent to security holders:

March 19, 2018

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

Item 2. Dissenter’s right of appraisal

Under Sections 42 and 81, Title X of the Corporation Code of the Philippines (“Corporation Code”), a stockholder shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
- (c) In case of merger or consolidation; and
- (d) Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Corporation was organized.

There are no matters or actions to be taken up at the meeting that may give rise to a possible exercise by stockholders of their appraisal rights.

Item 3. Interest of certain persons in or opposition to matters to be acted upon

There is no matter to be acted upon in which any Director or Executive Officer is involved or had a direct, indirect or substantial interest.

No Director has informed the Company of his opposition to any matter to be acted upon.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting securities and principal holders thereof

a. **Number of shares outstanding as of January 31, 2018:** 1,867,293,215 Common shares²

Number of votes entitled: one (1) vote per common share

b. All **stockholders of record** as of March 2, 2018 are entitled to receive notice and to vote at the annual stockholders' meeting.

c. **Manner of voting**

Sections 7 and 8 of Article III of the By-laws of the Company (the "By-laws") provide:

Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the corporation to one vote, provided the conditions as regards payment subject to which it was issued have been complied with.

Section 8 - The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as are to be elected as Directors, or he may give to one candidate as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. x x x

d. **Security ownership of certain record and beneficial owners and management**

(i) Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2018.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Outstanding Shares
Common	AC Industrial Technology Holdings, Inc. ³ 11 Floor, Bonifacio One Technology Tower, 3030 Rizal Drive West, Bonifacio Global City, Taguig City 1634	AC Industrial Technology Holdings, Inc. ⁴	Filipino	945,537,873	50.6368%
Common	Resins, Inc. ⁵ E. Rodriguez Jr. Avenue,	Resins, Inc. ⁶	Filipino	239,412,533	12.8214%

² A total of 350,000,000 common shares were issued on March 2, 2018 as a result of the Company's stock rights offering.

³ AC Industrial Technology Holdings, Inc. (AC Industrials) is a stockholder of the Company.

⁴ The Board of Directors of AC Industrials has the power to decide how AC Industrials' shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

⁵ Resins is not related to the Company.

⁶ The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.

	Bagong Ilog, Pasig City.				
Common	PCD Nominee Corporation (Non-Filipino) ⁷ 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers ⁸	Various Non-Filipino	229,580,653	12.2948%
Common	EPIQ NV ⁹ Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV ¹⁰	Belgian	200,000,000	10.7107%
Common	PCD Nominee Corporation (Filipino) ⁵ 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers ⁶	Filipino	179,957,836	9.6374%

(ii) Security ownership of directors and management as of January 31, 2018.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percentage of Ownership
Directors					
Common	Jaime Augusto Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100	(direct)	Filipino	0.0000%
Common	Jose Teodoro K. Limcaoco	100	(direct)	Filipino	0.0000%
Common	Arthur R. Tan	20,173,552	(direct & indirect)	Filipino	1.0804%
Common	Gilles Bernard	1,280,575	(direct & indirect)	French	0.0686%
Common	Rafael Ma. C. Romualdez	1	(direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	1	(direct)	Filipino	0.0000%
Common	Edgar O. Chua	100	(direct)	Filipino	0.0000%
Common	Hiroshi Nishimura	600,115	(direct & indirect)	Japanese	0.0321%
Common	Alelie T. Funcell	115	(direct)	Filipino	0.0000%
CEO and Most Highly Compensated Officers					
Common	Arthur R. Tan	20,173,552	(direct & indirect)	Filipino	1.0804%
Common	Gilles Bernard	1,280,575	(direct & indirect)	French	0.0686%
Common	Linardo Z. Lopez	379,625	(direct & indirect)	Filipino	0.0203%
Common	Jaime G. Sanchez	92,895	(indirect)	Filipino	0.0050%
Common	Jerome S. Tan	3,241,033	(indirect)	Singaporean	0.1736%
Other Executive Officers					
Common	Solomon M. Hermosura	15	(indirect)	Filipino	0000%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		25,768,427			1.3800%

⁷ The PCD is not related to the Company.

⁸ Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 409,538,489 common shares registered in the name of PCD Nominee Corporation, 154,771,267 common shares or 8.2885% of the outstanding common shares is for the account of The Hongkong and Shanghai Banking Corporation (HSBC). The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of HSBC or any of its customers beneficially owns more than 5% of the Company's common shares.

⁹ EPIQ NV is a stockholder of the Company.

¹⁰ The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala is usually appointed to exercise the voting power.

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

(iii) Voting trust holders of 5% or more

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

(iv) Changes in control

No change of control in the Company has occurred since the beginning of its last fiscal year.

e. Foreign ownership level as of January 31, 2018 – 23.81%

Item 5. Directors and executive officers

Section 9 of Article III of the By-laws provides:

Section 9 - At the regular general meetings, a Board of eleven (11) Directors shall be elected who shall hold office for a term of one (1) year or until their successors shall have been elected and qualified.

The record of attendance of the directors at the meetings of the Board of Directors (the "Board") held in 2017 is as follows:

Directors	No. of Meetings Attended/Held ¹¹	Percent Present
Jaime Augusto Zobel de Ayala	7/7	100%
Fernando Zobel de Ayala	7/7	100%
Delfin L. Lazaro	6/7	86%
Jose Teodoro K. Limcaoco	6/7	86%
Arthur R. Tan	7/7	100%
Gilles Bernard	6/7	86%
Jose Ignacio A. Carlos	6/7	86%
Rafael Ma. C. Romualdez	7/7	100%
Hiroshi Nishimura	6/7	86%
Alelie T. Funcell	7/7	100%
Edgar O. Chua	7/7	100%

The Management Committee members and other officers of the Company, unless removed by the Board, shall serve as such until their successors are elected or appointed.

a. Information required of directors and executive officers

(i) Directors and executive officers

The nominees for election to the Board at the annual meeting of the shareholders are as follows:

Jaime Augusto Zobel de Ayala
Fernando Zobel de Ayala

Delfin L. Lazaro
Jose Teodoro K. Limcaoco

¹¹ In 2017 during the incumbency of the director.

Arthur R. Tan
Gilles Bernard
Jose Ignacio A. Carlos
Edgar O. Chua

Hiroshi Nishimura
Sherisa P. Nuesa
Rafael Ma. C. Romualdez

Messrs. Edgar O. Chua and Hiroshi Nishimura, and Ms. Sherisa P. Nuesa are nominated as independent directors. Each nominee has accepted his or her nomination.

Ms. Nerissa N. Cosme, a shareholder of the Company, formally nominated all the 11 candidates. Ms. Cosme is not related to any of the nominees including the nominees for independent directors. Please refer to Annex “A” for the summary of the directors’ qualifications.

The Nomination Committee of the Company (with Alelie T. Funcell, as Chairman and Jose Ignacio A. Carlos and Edgar O. Chua, as members) evaluated the qualifications of the nominees and prepared the final list of nominees in accordance with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and the By-laws of the Company.

Messrs. Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Lazaro, Romualdez, Tan, Carlos and Nishimura have served as directors of the Company for more than five years; Mr. Chua for four years; Mr. Limcaoco for two years; and Mr. Bernard for less than two years. Ms. Nuesa is being nominated as a director of the Company for the first time.

The above-named nominees are expected to attend the annual stockholders’ meeting.

The Company has adopted SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and complied therewith. The Company undertakes to abide by SRC Rule 38 on the required number of independent directors subject to any revision that may be prescribed by the Securities and Exchange Commission (“SEC”).

(ii) Significant employees

The Company considers its human resources working as a team as a key element for its continued success. Moreover, the Company has no employee and non-executive officer who is expected to make individually on his own a significant contribution to the business.

(iii) Family relationships

Jaime Augusto Zobel de Ayala, Chairman of the Board, and Fernando Zobel de Ayala, a director of the Company, are brothers. Jose Ignacio A. Carlos and Rafael Ma. C. Romualdez, both incumbent directors, are first cousins.

There are no known family relationships between the current members of the Board and key officers other than the above.

(iv) Involvement in Certain Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years up to the present date to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

The Company filed a civil case on April 11, 2011 against Standard Insurance (“Standard”) seeking to collect Standard’s share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company’s Cebu facility which the Company claims to be covered by Standard’s “Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption” policy. The share of Standard in the loss is 22% or US \$1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, the Company filed a Motion for Reconsideration. On December 10, 2013, the Company received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

The Company filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court as of December 31, 2017.

b. Certain Relationships and Related Transactions

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of lease agreements, supply contracts, and administrative service agreements as well as making of advances and reimbursement of expenses on an arm’s length basis and at current market prices at the time of the transactions.

No transaction was undertaken by the Company in which any director or executive officer was involved or had a direct or indirect material interest.

The Company has not received any complaint regarding related-party transactions.

c. Ownership structure and parent company

As of January 31, 2018, AC Industrial Technology Holdings, Inc., Resins, Inc., and EPIQ NV respectively owns 50.6368%, 12.8214% and 10.7107% of the total outstanding common stock of the Company.

d. Resignation of directors

No director has resigned from, or declined to stand for re-election to the Board since the date of the 2017 annual meeting of stockholders due to any disagreement with the Company relative to the Company’s operations, policies and practices.

Item 6. Compensation of directors and executive officers Executive Compensation

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan Chief Executive Officer			
Gilles Bernard President & Chief Operating Officer			
Linardo Z. Lopez Senior Managing Director, Global Head of Materials Management			
Jaime G. Sanchez			

Vice President, Deputy Chief Financial Officer, Group Controller and Compliance Officer			
Jerome S. Tan Senior Managing Director, Global Chief Financial Officer/ICT			
CEO & Other Named Executive Officers	Actual 2016	₱ 81.74M	₱ 33.93M
	Actual 2017	₱ 89.12M	₱ 36.77M
	Projected 2018	₱ 88.37M	₱ 35.41M
All officers as a group unnamed*	Actual 2016	₱ 473.48M	₱ 140.74M
	Actual 2017	₱ 585.75M	₱ 152.43M
	Projected 2018	₱ 601.72M	₱ 148.88M

**All employees with a rank of manager and higher, including all above-named officers.*

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

b. Compensation of directors

Section 9 of Article IV of the By-laws provides:

Section 9 - Each director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed five percent (5%) of the net income before income tax of the Corporation during the preceding year. (As amended on February 23, 2011.)

x x x

The Chairman of the Board shall receive such remuneration as may be fixed by the Board of Directors each year, in addition to the per diem and compensation that each Director may be entitled to receive. (As amended on February 23, 2011.)

(i) Standard arrangement

During the 2008 annual stockholders' meeting, the stockholders approved a resolution fixing the remuneration of non-executive directors as follows:

Board Meeting Fee per meeting attended	₱ 100,000.00
Committee Meeting Fee per meeting attended	₱ 20,000.00

The executives who are members of the Board of the Company do not receive any amount as per diem. Their compensation as executives of the Company is included in the compensation table indicated above.

(i) Other arrangement

None of the directors, in their personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing directors

and officers aside from the compensation received as herein stated.

c. Employment contracts and termination of employment and change-in-control arrangements

The above named executive officers are covered by letters of appointment stating their respective job functions, among others.

d. Warrants and options outstanding, repricing

The Company has not offered any stock options, warrants or rights to its employees

Item 7. Independent Public Accountants

a. The principal accountant and external auditor of the Company is the accounting firm of SyCip Gorres Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the scheduled annual stockholders' meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company. Mr. Carlo Paolo V. Manalang is the audit partner for the audit year 2017 while Mr. Arnel F. de Jesus served as such for the audit years 2014 to 2016.

c. Changes in and disagreements with accountants on accounting and financial disclosure

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There are no disagreements with SGV & Co. on accounting and financial disclosures.

d. Audit and audit-related fees

The Company paid or accrued the following fees to its external auditors in the past two years:

	<u>Audit & Audit-related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
2017	₱ 9.55M	-	₱ 3.27M
2016	₱ 3.70M	₱ 0.35M	₱ 0.07M

Audit and audit-related fees includes the audit of annual financial statements and review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years.

The fees above are exclusive of out-of-pocket expenses incidental to the independent auditors' work.

e. Tax fees

The Company engaged SGV & Co. to perform tax advisory services in 2016.

f. **All other fees**

The Company engaged the services of SGV & Co. to perform financial and accounting advisory, financial reporting valuation reviews, assessment of compliance with the Data Privacy Act, and the validation of votes during its 2017 and 2016 annual stockholders' meetings..

The Company's Audit Committee (with Edgar O. Chua, as Chairman and Rafael Ma. C. Romualdez and Hiroshi Nishimura, as members) recommended to the Board the appointment of SGV & Co. as its external auditor and the fixing of the audit fees which the Board approved. Likewise, the other services rendered by SGV & Co. were approved by the Board upon the recommendation of the Audit Committee. The Board now endorses to the stockholders, for their approval, the said recommendation.

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any compensation plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or issuance of securities other than for exchange

a. **Title and amount of securities to be issued**

The proposed amendment to the Article Seventh of the Articles of Incorporation is the increase in the authorized capital stock by ₱550,000,000.00 consisting of 550,000,000 Common shares, with a par value of ₱1.00 per share. Acting upon its delegated authority, the Company's management will determine the final terms and conditions of the proposed increase in capital stock.

b. **Description of securities**

The shares to be issued shall have the features, rights, and privileges as the existing Common shares as provided in Article Seventh of the Company's Articles of Incorporation.

c. **Description of transaction in which the securities are to be issued**

Subject to the SEC's approval of the proposed increase in the authorized capital stock, the Board of Directors of the Company shall determine the terms and timing of the issuance of the shares in due course.

d. **Reason for the proposed increase and issuance**

The proceeds to be raised from the increase and subsequent issuance of the shares will be used by the Company as additional capital for business development initiatives and operational expenses.

e. There are no provisions in the Company's Articles of Incorporation or By-Laws that would directly delay, defer, or prevent a change in control of the Company.

Item 10. Modification or exchange of securities

On February 20, 2018, the Board of Directors approved the amendment to the Article Seventh of the Articles of Incorporation to increase the authorized capital stock from ₱2,450,000,000.00 consisting of 2,250,000,000 Common shares and 200,000,000 Preferred shares, both with a par value of ₱1.00 each to

₱3,000,000,000.00 consisting of 2,800,000,000 Common shares and 200,000,000 Preferred shares, both with a par value of ₱1.00 each.

The reason for the increase in the authorized capital stock of the Company is stated in Item 9d (***Reason for the proposed increase and issuance***) above.

Item 11. Financial and other information

The audited financial statements as of December 31, 2017, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "B." The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (Form 17-A).

Item 12. Mergers, consolidations, acquisitions and similar matters

There are no matters or actions to be taken up in the meeting with respect to a merger, consolidation, acquisition by, sale or liquidation of the Company.

Item 13. Acquisition or disposition of property

There are no matters or actions to be taken up in the meeting with respect to an acquisition or disposition of any property by the Company.

Item 14. Restatement of accounts

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 34 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4
- PFRS 9, *Financial Instruments*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

D. OTHER MATTERS

Item 15. Action with respect to reports

- a. Approval of the Minutes of the 2017 annual stockholders' meeting held on April 7, 2017 covering the following matters:
 - (i) Annual report of officers;
 - (ii) Approval of the Decrease of Authorized Capital Stock from PhP3.75Bn to PhP2.45Bn and the corresponding Amendment of the Seventh Article of the Articles of Incorporation
 - (iii) Approval of the following amendments to the Articles of Incorporation:
 - a. In the Second Article, the inclusion in the primary purpose the production, assembly or manufacture of non-electronic products or parts, components or materials of non-electronic

products;

- b. In the Seventh Article, the addition of re-issuability to the features of the preferred shares
- (iv) Election of the members of the Board of Directors, including the Independent Directors, and
- (v) Election of external auditor and fixing of its remuneration.

- b. Approval of the Annual Report of Management for the year ending December 31, 2017.

Except for the foregoing, the proposed increase in the Company's authorized capital stock together with the corresponding amendment of the Seventh Article of its Articles of Incorporation, and the other proposed actions, there are no other matters requiring the approval or ratification of the stockholders.

Item 16. Matters Not Required to be Submitted

There are no matters or actions to be taken up in the meeting that will not require the vote of the stockholders as of the record date.

Item 17. Amendment of charter, by-laws or other documents

At its meeting on February 20, 2018, the Board of Directors of the Company approved the increase of the Company's authorized capital stock from PhP2,450,000,000.00 to PhP3,000,000,000.00, and the corresponding amendment of the Seventh Article of the Articles of Incorporation. The stockholders will consider the amendment at their meeting.

As proposed to be amended, the Seventh Article of the Articles of Incorporation will read as follows:

SEVENTH: That the capital stock of said Corporation is Three Billion Pesos (₱3,000,000,000.00), Philippine Currency, consisting of Two Billion Eight Hundred Million (2,800,000,000) Common shares and Two Hundred Million (200,000,000) Preferred shares, both with par value of ONE PESO (₱1.00) each. (As amended on April 13, 2018)

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The approval by the stockholders of the amendment to the Seventh Article of the Articles of Incorporation of the Company will be sought to enable the Company to have flexibility in raising additional funds for its business development initiatives and operational expenses.

Item 18. Other proposed actions

- a. Election of the members of the Board, including the independent directors, for the ensuing calendar year.
- b. Election of external auditor and fixing of its remuneration.

Item 19. Voting procedures

- a. **Vote required**

The affirmative vote of stockholders representing at least 2/3 of the issued and outstanding capital stock is required for the approval of the proposed increase in the Company's authorized capital stock and proposed amendment to the Seventh Article of its Articles of Incorporation. The affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the

annual stockholders' meeting is required for the approval of the other matters presented to the stockholders for decision. The election of directors is by plurality of votes.

b. Method of Voting

In all items for approval, each share of stock entitles its registered owner to one vote.

In case of election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

Voting will be by poll. Upon registration at the annual stockholders' meeting, each stockholder will be given a ballot to enable him to vote in writing on each item or proposal in the Agenda. A stockholder may also vote electronically using any of the computers at the station for electronic voting. Nonetheless, each stockholder may vote *viva voce* or by other means of communicating his approval or objection.

All votes will be counted and tabulated by the Office of the Corporate Secretary and the results will be validated by the external auditor of the Company, SGV & Co.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on March 6, 2018.

INTEGRATED MICRO-ELECTRONICS, INC.



by: SOLOMON M. HERMOSURA
Corporate Secretary

ANNEX “A”

DIRECTORS AND KEY OFFICERS

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2017.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Arthur R. Tan	Director & Chief Executive Officer
Gilles Bernard	Director, President & Global Chief Operating Officer
Fernando Zobel de Ayala	Director
Jose Ignacio A. Carlos	Director
Delfin L. Lazaro	Director
Jose Teodoro K. Limcaoco	Director
Rafael Ma. C. Romualdez	Director
Edgar O. Chua	Independent Director
Alelie T. Funcell	Independent Director
Hiroshi Nishimura	Independent Director

Jaime Augusto Zobel de Ayala, Filipino, 58, has served as Chairman of the Board of Directors of IMI since January 1995. He holds the following positions in publicly listed companies: Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also the Chairman of AC Education, Inc., Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holding Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Limited; Chairman of Harvard Business School Asia-Pacific Advisory Board and Endeavor Philippines; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, Global Board of Advisors of the Council on Foreign Relations, Asia Society International Council, University of Tokyo Global Advisory Board, Singapore Management University Board of Trustees, and Eisenhower Fellowships Board of Trustees. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010 to 2015. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. In 2010, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. In 2015, he received the Order of Mabini, with rank of Commander, for his vital contributions during the Philippines' hosting of the Asia Pacific Economic Cooperation (APEC) Summit. In 2017, he was recognized as a United Nations SDG Pioneer for his work in sustainable business strategy and operations. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business Administration in 1987.

Arthur R. Tan, Filipino, 58, has been a member of the Board of Directors of IMI since July 2001. He has been the Chief Executive Officer of IMI since April 2002. Concurrently, he is a Senior Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee. He is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc., President and Executive Officer of Speedy-Tech Electronics Ltd.; and President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. He was the President of IMI from April 2002 to June 23, 2016. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from

1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

Gilles Bernard, French, 60, has been a Director and the President of IMI since June 23, 2016, and the Chief Operating Officer of IMI since February 2016. He holds this position on top of his role as Head of Global Operations Support. Concurrently, he is also the President and Chief Operating Officer of PSi Technologies Inc., a semiconductor assembly and test subsidiary of IMI. Before this movement, he was the COO for Europe and Mexico operations and Head of Global Operations support overseeing global Materials Management, Quality, Sales and Key Strategic Accounts Management. Prior to joining IMI, he was the General Manager of EPIQ NV from 1995 up to 2001, before he assumed the CEO post in 2001. He held this position until EPIQ NV's acquisition in 2011. He started his career as a development engineer and later on became D & D Manager of passive components division of Thomson. He then moved to the SMEE subsidiary of Mitsubishi Corporation as Quality Manager of SMEE. He finished a degree in Engineering and obtained a Master's Degree in Physics and Chemistry from Paris 13th University in 1976.

Fernando Zobel de Ayala, Filipino, 57, has served as a director of IMI since January 1995. He holds the following positions in publicly listed companies: Director, President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Director of Bank of The Philippine Islands and Globe Telecom, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., AC Industrial Technology Holdings, Inc., Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice-Chairman of ALI Eton Property Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc. and Bonifacio Art Foundation, Inc.; Director of LiveIt Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., AC Education, Inc. and AC Ventures Holding Corp., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula; Member of the Philippine-Singapore Business Council, INSEAD East Asia Council, World Presidents' Organization; and Chief Executives Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, and the National Museum. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

Jose Ignacio A. Carlos, Filipino, 48, has been a Director of IMI since December 2006. Concurrently, he is the President of Polymer Products Philippines, Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins, Inc., Riverbanks Development Corporation, Mindanao Energy Systems, Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works, Inc. He earned a BS Management degree from the Ateneo de Manila University in 1991 and finished Masters of Business Administration at the Johnson Graduate School of Management Cornell University in 1999.

Delfin L. Lazaro, Filipino, 71, has served as member of the Board of IMI since May 2000. He holds the following positions in publicly listed companies: Director of Ayala Corporation, Ayala Land, Inc., Manila Water Company, Inc., and Globe Telecom, Inc.. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc.; Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; and Director of AC Industrial Technology Holdings, Inc., AYC Holdings, Ltd., AC International Finance Limited, Purefoods International Limited, and Probe Productions, Inc. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Jose Teodoro K. Limcaoco, Filipino, 55, has been a director of IMI since April 8, 2016. He also holds the following positions in publicly listed companies: Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head of Ayala Corporation, Director of Globe Telecom, Inc. and an Independent Director of SSI Group, Inc.. He is the Chairman of Darong Agricultural and Development Corporation, Zapfam, Inc. and Arlington Mariveles Philippine GP Corporation. He is the President and CEO of AC Ventures Holding Corp. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., Kauswagan Power GP Corp., A.C.S.T Business Holdings, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Rafael Ma. C. Romualdez, Filipino, 54, has been a Director of IMI since May 1997. He is presently a Director of Resins, Inc., RI Chemical Corporation, Chemserve Incorporated, Claveria Tree Nursery, Inc., Lakpue Drug Incorporated and La Croesus Pharma Incorporated. He is also the Chairman of the Philippine Iron Construction and Marine Works, Inc., Pacific Resins, Inc., and MC Shipping Corp. He earned a degree in B.A. Mathematics from Boston College in 1986 and took Masters in Business Administration at the George Washington University in 1991.

Edgar O. Chua, Filipino, 61, has been an independent director of IMI since April 2014 and its Lead Independent Director since August 16, 2017. He was the Country Chairman of the Shell Companies in the Philippines from September 2003 to October 2016. He had corporate responsibility for the various Shell companies in the exploration, manufacturing and marketing sector of the petroleum business. Likewise, he also oversaw the Shared Services operations and various Shell holding companies. Outside the Philippines, he held senior positions as Transport Analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia. He is currently an independent director of Metrobank and Energy Development Corporation. He is also in the advisory boards of Mitsubishi Motors Philippines Corporation and Coca Cola FEMSA Philippines. He is the Chairman of the Makati Business Club, De La Salle University Board of Trustees, and the Philippine Eagle Foundation. He is also a trustee of various Colleges, of civic and business organizations. Mr. Chua earned his Bachelor of Science Degree in Chemical Engineering from De La Salle University in 1978 and attended various international seminar and courses including the senior management course in INSEAD, France.

Alelie T. Funcell, Filipino, 62, has been an independent director of IMI since April 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria, Inc., a manufacturer of c-Si Photovoltaic products and Vice President of Supplier Management and Manufacturing Operations of Xilinx, Inc., a billion dollar semiconductor company. She is not a director of any publicly listed company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was President of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. She received an award from the FWN, as one of the 100 Most Influential Filipino Women in the United States in 2009. She finished a degree in Chemical Engineering at University of Sto. Tomas in 1977.

Hiroshi Nishimura, Japanese, 65, has been an independent director of IMI since April 2010. He is the Chairman and President of Linkwest International Consultancy Services, Inc. He also serves as the Executive Vice President of All Purpose Appliances & Multi-Products, Inc. He served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME), from 2000-2007. He finished a degree in Electronics Engineering Course at Kurume University in 1976.

Nominees to the Board of Directors for election at the stockholders' meeting

All incumbent directors, except Ms. Alelie T. Funcell.

Sherisa P. Nuesa, Filipino, 63, served as the Chief Finance Officer and Chief Administration Officer of IMI from January 2009 to July 2010. She was then a Managing Director of Ayala Corporation and served in various capacities in Ayala Corporation, Ayala Land, Inc. and Manila Water Company, Inc. Currently, she is the President and Director of the ALFM Mutual Funds Group. Also, she is an Independent Director of Manila Water Company, Inc., Far Eastern University, the Generika Group of Companies, and FERN Realty Corporation. She is a Senior Adviser to the Boards of Metro Retail Stores Group, Inc. and Vicsal Development Corporation. She is a member of the boards of trustees of the Institute of Corporate Directors, the Judicial Reform Initiative, and the Financial Executives Institute of the Philippines. In addition to her background as a Chief Finance Officer and currently as a Board Director, she also held previous positions in management operations and has been active in speaking and lecturing engagements. She was awarded the ING-FINEX CFO of the Year for 2008. She received a Master in Business Administration degree from the Ateneo Graduate School of Business in Manila. She also attended post-graduate courses, such as the Advanced Management Program of the Harvard Business School, and the Financial Management Program of the Stanford University. She graduated summa cum laude with a degree of Bachelor of Science in Commerce from the Far Eastern University in 1974. She is a Certified Public Accountant.

The certifications on the qualifications and disqualifications of the nominees for independent directors are attached.

Management Committee Members and Key Executive Officers

* Jaime Augusto Zobel de Ayala	Chairman of the Board
* Arthur R. Tan	Chief Executive Officer
* Gilles Bernard	President and Chief Operating Officer
** Jerome S. Tan	Senior Managing Director, Global Chief Financial Officer/ICT and Treasurer
** Linardo Z. Lopez	Senior Managing Director, Global Head of Materials Management
Jaime G. Sanchez	Vice President, Deputy Chief Financial Officer, Group Controller, Compliance Officer, and Data Protection Officer
Solomon M. Hermosura	Corporate Secretary
Joanne M. Lim	Assistant Corporate Secretary
* <i>Members of the Board of Directors</i>	
** <i>Management Committee members</i>	

Jerome S. Tan, Singaporean, 56, is a Senior Managing Director and the Global Chief Finance Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllershship and ICT functions of the IMI global operations. He brings more than 25 years of broad experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multi-national Banking and Finance companies, and Food and Beverage industry located in different countries in the Asia Pacific Region. Prior to joining IMI, he was with General Electric holding various regional and operating roles in Finance and Business Development including CFO for CNBC / NBC Universal Asia Pacific, CFO of

GE Money Singapore and GE Money Bank in the Philippines. Before taking on operating CFO positions, he was the Regional FP&A Leader for GE Money Asia; and a Business Development Director for GE Capital responsible for mergers and acquisition. Prior to joining GE, he was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Corporate Planning and Business Development. He started his career in banking as an Associate in Robert Fleming, Inc. based in New York and was also an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He graduated with B.A. in Economics under the Honors Program from De La Salle University in 1982 and obtained an MBA in General Management from the Darden Business School at University of Virginia in 1987.

Linardo Z. Lopez, Filipino, 60, joined IMI as Senior Managing Director and Global Head of Materials Management in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Soletron and Flextronics in China. He finished a degree in Management and Industrial Engineering at Mapua Institute of Technology in 1978.

Jaime G. Sanchez, Filipino, 62, is a Vice President and the Deputy CFO, Group Controller, Compliance Officer and Data Protection Officer of IMI. He has worked with different Ayala companies for more than thirty (30) years including eighteen (18) years at IMI. He was also assigned as OIC – Chief Financial Officer of IMI starting August 2010 up to early part of 2011. He brings with him solid professional experience from his stints in FGU, BPI-MS and Universal Reinsurance. He finished a degree in Bachelor of Science in Commerce major in Accounting at Polytechnic University of the Philippines in 1978.

Solomon M. Hermosura, Filipino, 55, has served as Corporate Secretary of IMI since November 2013. He is a Managing Director of Ayala Corporation and a member of its Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, Chief Legal Officer, Compliance Officer, Corporate Secretary and Data Protection Officer of Ayala Corporation. He is the CEO of Ayala Group Legal. He also serves as Corporate Secretary and Group General Counsel of Ayala Land, Inc.; Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Ayala Foundation, Inc. He also serves as the Corporate Secretary and a member of the Board of Directors of a number of companies in the Ayala group. He served as a Director of Bank of the Philippine Islands from April 18, 2013 to April 9, 2014. He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.

Joanne M. Lim, Filipino, 35, has served as Assistant Corporate Secretary of IMI since June 23, 2016. She is also the Assistant Corporate Secretary of Ayala Corporation, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., AC Education, Inc., AC Ventures Holding Corp., LiveIt Investments Limited, and other companies within the Ayala Group to which she also provides other legal services. She is a Senior Counsel at Ayala Group Legal. Prior to joining Ayala Group Legal in 2015, she was a Project Legal Advisor for CFT Transaction Advisors. She served as Director of the Legal Affairs Office of the Department of Finance from 2011 to 2013 and was an Associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices from 2007 to 2010. She obtained her Bachelor of Laws degree in 2007 and her Bachelor of Arts degree in Broadcast Communication (*magna cum laude*) in 2003, both from the University of the Philippines, Diliman. She has a Master of Laws degree in Global Business Law from New York University and a Master of Laws degree in Corporate and Financial Services Law from National University of Singapore. She was admitted to the Philippine Bar in 2008 and to the New York State Bar in 2015.

ANNEX “B”

MANAGEMENT REPORT

I. MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Results of Operations

Revenues, gross profit, net income, and the related computed EBITDA and basic earnings per share, for the years ended 2017, 2016 and 2015 are shown on the following table:

	For the years ended December 31		
	2017	2016	2015
	<i>(in US\$ thousands, except Basic EPS)</i>		
Revenues from sales and services	1,090,588	842,966	814,364
Cost of goods sold and service	(960,990)	(741,657)	(720,333)
Gross profit	129,599	101,309	94,031
Net income attributable to equity holders of the Parent Company	34,002	28,116	28,790
EBITDA ¹²	70,342	64,967	58,763
Basic Earnings per Share (EPS)	0.018	0.015	0.015

2017 vs. 2016

Revenues from Sales and Services

The Company’s revenues for the full year 2017 hit a record high of US\$1.09 billion (₱55.0 billion), rising 29 percent from 2016. Revenue growth was accelerated by recent acquisitions and continued growth in automotive and industrial markets.

Revenues from Europe operations grew 14 percent year-on-year to US\$276.5 million, benefiting from lighting, controllers and driver assistance systems of its automotive segment. In Mexico, revenues expanded 29 percent to US\$84.2 million, as numerous projects for North America customers entered new product introduction phase throughout the year.

¹² EBITDA = EBITDA represents net operating income after adding depreciation and amortization and foreign exchange gains/losses. EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

China operations posted US\$271.1 million in revenues, up 4 percent year-on-year despite the delay in new technology roll-out in the telecom infrastructure business. The broadened product mix including electric vehicle charging solutions provided demand growth and differentiation to China facilities.

Philippine operations increased 4 percent to US\$263.7 million strengthened by new industrial applications and automotive camera business. This positive trend offsets the drop in demand in the security and medical device business.

Revenues from acquired businesses amounted to US\$193.9 million in 2017. VIA Optronics, a Germany-based optical bonding and display solutions provider, contributed US\$148.4 million—the highest revenues in its 12-year history. This compares to the three months revenue contribution of US\$19.4 million recognized in 2016. STI Enterprise, a United Kingdom-based electronics manufacturer specializing in aerospace and defense markets, added US\$45.5 million to IMI's revenues representing seven months contribution.

The Company's key focus markets, automotive and industrial which grew 18 percent and 25% year-on-year, respectively, continue to show high potential for growth.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US\$129.6 million or ₱6.62 billion, higher year-on-year by 28% mainly from strong revenue growth. In addition, continued focus on LEAN manufacturing and improved utilization of fixed overhead partially offset the lower gross profit margin mix coming from the new acquisitions.

Operating Income

Operating income is at \$40.4 million or ₱2.0 billion, a 6% decrease from last year. Increase in GP was countered by increase in GAE mainly from the expenses recognized in relation to the sale of Shenzhen Speedy-Tech Electronics Co., Ltd (STSZ) and transfer to the Pingshan facility. The relocation costs consist of net partial employee pay-out amounting to \$6.4 million (\$11.7 million less \$5.3 million provision for refund related to the actual spin-off compensation paid amounting to \$5.3 million), and incidental expenses such as rental, machine transfer, overtime during transition, dormitory expense, security / janitorial, transportation and system transfer aggregating to \$1.60 million. Based on labor employment contract regulations, it is not allowed to transfer location or legal entity without proper consent from each employee. Upon mutual agreement, the employees opted to be disengaged from the previous company and transfer to the new company with appropriate compensation. The transfer was prompted by the urban redevelopment projects of the Shenzhen City government. The facilities transferred are intended to become part of operational at the new site under a wholly-owned entity IMI Technology (Shenzhen) Co. Ltd, thus, IMI does not consider these operations as discontinued.

Other reasons for the decline include increase in people costs in Europe, technology-related expenses (ERP system and research and development), government-related expenses, transaction costs related to the acquisition of STI and amortization of intangible assets arising from the recognition of increase in fair values of VIA intellectual properties and start of depreciation related to new projects upon mass production.

Net Income

The Company's net income attributable to the owners of the Parent stood at \$34.0 million or ₱1.71 billion, a 21 percent increase year-on-year. The slight decline in operating income was offset by some non-operating income such as net mark-to-market gains on put options related to the acquisitions (+\$2.3M), non-recurring engineering expenses (+\$2.3M), and others consisting of gain on sale of scrap/fixed assets and reversal of

impairment (+\$2.3M). The Company also has a beneficial FX position posting \$1.3M foreign exchange gains versus last year's forex loss of \$2.4M.

EBITDA

EBITDA higher by US\$5.4 million or 8% due to higher earnings before depreciation and amortization and beneficial FX position.

Financial Condition

The Company's current capital structure is at 1.08:1 D/E ratio. The recent increase is driven by strong capital expenditures of \$65.3 million in line with expansion programs and newly-acquired company in UK. The increased leverage will facilitate investments in desirable growth opportunities.

For 2018, the Company expects additional \$75 million of capital expenditures majority of which are new SMT lines for expansions and new businesses, new manufacturing facilities and expansion buildings, innovation and automation, and additional software licenses. These are intended to expand the Company's capacity and support expected increases in demand, as well as to sustain the Company's productivity and efficiency.

Key Performance Indicators of the Company

The table below sets forth the comparative performance indicators of the Company:

	As of end	
	Dec 31, 2017	Dec 31, 2016
Performance indicators		
Liquidity:		
Current ratio ^a	1.28x	1.51x
Solvency:		
Debt-to-equity ratio ^b	1.08x	0.74x
	For the years ended	
	31 Dec	
	2017	2016
Operating efficiency:		
Revenue growth ^c	29%	4%
Profitability:		
Gross profit margin ^d	11.9%	12.0%
Net income margin ^e	3.1%	3.3%
Return on equity ^f	13.3%	12.0%
Return on common equity ^g	13.3%	12.0%
Return on assets ^h	3.7%	4.4%
¹³ EBITDA margin	6.4%	7.7%

¹³ EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, and foreign exchange gains (losses). EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

^a Current assets/current liabilities

^b Bank debts/Equity attributable to equity holders of the Parent Company

^c (Current year less previous year revenue)/Previous year revenue

^d Gross profit/Revenues

^e Net income attributable to equity holders of the Parent Company/Revenues

^f Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent

^g Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent

^h Net income attributable to equity holders of the Parent Company/Total Assets

In the above:

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.
- (v) There were no significant elements of income or loss that did not arise from continuing operations.
- (vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes

(Increase or decrease of 5% or more in the financial statements)

Income Statement Items

(For the Years ended December 2017 versus 2016)

29% increase in Revenues (\$843.0M to \$1,090.6M)

The increase was driven by the surge in revenues of VIA, seven months contribution of STI and increase in demand across all sites.

30% increase in Cost of goods sold (\$741.7M to \$961.0M)

Relative to the 29% increase in revenues coupled with slight increase in DM cost ratio due to change in product mix.

53% increase in Operating expenses (\$58.4M to \$89.2M)

The increase was attributable to the newly-acquired subsidiary VIA and STI, relocation costs related to the transfer to the Pingshan manufacturing facility, increase in headcount and people costs to support new programs, transaction costs related to STI acquisition, and increase in technology and government-related expenses.

118% increase in Other non-operating income (-\$8.1M net loss to \$1.5M net income)

Non-operating income such as net mark-to-market gains on put options related to the acquisitions (+\$2.3M), non-recurring engineering expenses (+\$2.3M), and others consisting of gain on sale of scrap/fixed assets and reversal of impairment (+\$2.3M). The Company also has a beneficial FX position posting \$1.3M foreign exchange gains versus last year's forex loss of \$2.4M.

10% increase in Provision for income tax (\$6.8M to \$7.5M)

Increase mainly driven by the full year contribution of VIA Optronics and higher tax base for IMI PH.

541% increase in Non-controlling interest (-\$0.1M to \$0.4M)

Share of minority in the net income of VIA (23.99%) and STI (20%).

Balance Sheet items

(31 December 2017 versus 31 December 2016, as restated)

34% increase in Loans and receivables (\$197.0M to \$263.1M)

Increase mainly due to higher sales and consolidation of STI's management accounts.

88% increase in Inventories (\$106.1M to \$199.6M)

Increase attributable to growth of turnkey businesses particularly in Europe and Mexico; China building up inventories for the next quarter's demand, and consolidation of STI's management accounts.

56% increase in Other current assets (\$17.3M to \$27.1M)

Increase is attributable to increase in tax credits in Europe and Mexico and consolidation of STI's management accounts.

40% increase in Property, plant and equipment (\$117.4M to \$164.6M)

Significant increase in capital expenditures driven by ongoing big projects in China, Mexico, and Philippines, additional SMT lines in Europe and ongoing construction of the Serbia facility.

61% increase in Goodwill (\$91.4M to \$147.4M)

Goodwill recognized for the acquisition of STI amounting to \$56.0 million.

25% increase in Intangible assets (\$18.3M to \$22.9M)

Increase mainly from capitalized costs arising from the development phase of certain projects under qualification (+\$5.6M), and additional software costs (+\$3.3M); intellectual properties related to STI acquisition amounted to \$0.4M. Amortization increased by \$2.4 million from amortization of valued IPs for VIA upon finalization of purchase price allocation (prior year restated to adjust the increase in fair value of identified patents - \$7.8M).

122% increase in Deferred tax assets (\$1.6M to \$3.5M)

Increase mainly from DTA of STI pertaining to loss carryover.

34% decrease in Other noncurrent assets (\$2.7M to \$1.8M)

Decrease due to refund in utility deposits for PSI related to the closure of Taguig facility.

45% increase in Accounts payable and accrued expenses (\$195.7M to \$284.3M)

Mainly due to the increase in trade payables and accrual for salaries and benefits, taxes, utilities and interest. The following table sets forth the Company's accrued compensation, benefits and expenses as of 31 December 2017 versus the year ended 31 December 2016:

	Dec 31 2017	Dec 31 2016
	(in US\$'000)	
Compensation and benefits	\$24,075	\$21,555
Taxes	8,371	4,043
Relocation costs	4,382	—
Professional fees	2,073	1,331
Supplies	1,622	1,641
Light and water	1,454	1,141
Insurance	1,099	118
Interest payable	1,076	769
Freight and brokerage	965	—
Repairs and maintenance	794	1,134
Transportation and travel	709	505
Others	4,454	6,894
	\$51,074	\$39,131

163% increase in Loans and trust receipts payable (\$51.4M to \$135.1M)

Availments related to acquisition of STI and loans to fund expansions and working capital requirements.

97% increase in Financial liabilities (\$11.3M to \$22.3M)

Increase related to put options and contingent consideration related to STI acquisition.

16% decrease in Current portion of long-term debt (\$8.2M to \$6.9M)

Settlement of 5-yr Eur5M loan upon maturity in Feb 2017, offset by reclass to current portion of the balance of Cooperatief deferred payment related to EPIQ acquisition \$5.1 million due in July 2018.

10% decrease in Deferred tax liabilities (\$3.0M to \$2.7M)

Amortization of deferred tax recognized on the increase in fair value of intellectual properties related to VIA acquisition

Noncurrent advances from customers (\$1.1M to \$0)

Pertains to the termination of subcontracting service agreement between PSi and a customer due to the early termination of PSi lease in FTI Taguig. In line with the termination, the advances from the local customer become due in the first quarter of 2018.

25% increase in Pension liability (\$4.1M to \$5.1M)

Increase of pension liability in IMI Philippines and IMI Bulgaria mainly due to actuarial changes arising from changes in financial assumptions.

11963% increase in Other noncurrent liabilities (\$0.2M to \$26.1M)

Noncurrent portion of the contingent consideration related to the acquisition of STI

18% decrease in Additional paid-in capital (\$70.9M to \$58.1M)

Initial recognition of financial liability on put options for STI debited against APIC.

57% decrease in Subscriptions receivable (\$12.3M to \$5.4M)

Collections on subscribed ESOWN shares.

89% decrease in Cumulative translation adjustments losses (-\$20.6M to -\$9.0M)

Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency. The significant movement is due to appreciation of EUR against USD from 1.04 to 1.20.

16% increase in Remeasurement losses on defined benefit plans (-\$6.4M to \$7.4M)

Actuarial changes arising from changes in financial assumptions.

For the Years Ended 31 December 2016 vs 2015

Revenues, gross profit, net income, and the related computed EBITDA and basic earnings per share, for the years ended 2016, 2015 and 2014 are shown on the following table:

	For the years ended December 31		
	2016	2015	2014
	<i>(in US\$ thousands, except Basic EPS)</i>		
Revenues from sales and services	842,966	814,364	844,474
Cost of goods sold and service	(741,657)	(720,333)	(750,541)
Gross profit	101,309	94,031	93,933
Net income attributable to equity holders of the Parent Company	28,116	28,790	29,117
EBITDA ¹⁴	64,967	58,763	52,717
Basic Earnings per Share (EPS)	0.015	0.015	0.017

2016 vs. 2015

Revenues from Sales and Services

The Company wrapped up 2016 with consolidated revenues of \$843M (P40.0 billion), an increase of 4% year-over-year. Excluding acquisition, revenues went up by 1% driven by Europe and Mexico operations reporting combined revenues of \$308.0 million or 15% growth from last year.

The Company's operations in Asia delivered lower growth as a result of China's slower economic activity and IMI's strategic decision to disengage from one consumer electronics business. In addition, its Philippine operations also drew away from the declining segment in computing peripherals, driving lower growth. China operations posted \$261.4 million, down 6% from last year. Philippines's electronics services operations

¹⁴ EBITDA = EBITDA represents net operating income after adding depreciation and amortization and foreign exchange gains/losses. EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

delivered \$220.7 million, 2% lower than last year, while PSi Technologies, IMI's semiconductor assembly and test subsidiary, posted \$33.0 million in revenues, down 2% year-on-year.

Our focus market segments, automotive and industrial, represented 63 percent of the global sales for the year with a combined growth of 12%.

Europe remains to be the dominant market of the Company's products, comprising 54% of global sales, followed by America at 24%.

Cost of Goods Sold and Services

Cost of sales higher by 3% relative to revenue growth.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US\$101.3 million, an increase of 8% from last year with corresponding improvement in gross profit margin by 0.5% to 12%.

Net Income

The Company accomplished a positive growth in operating income by 13%. Net income attributable to the owners of \$28.1 million (¥1.3 billion) was slightly lower by 2% year-on-year owing to transaction and financing costs related to acquisitions and foreign exchange impact of the Renminbi.

EBITDA

EBITDA higher by US\$6.2 million or 11% evident at operating income level with growth of 13% from last year.

Financial Condition

The Company remains to have a strong cash position with current ratio of 1.51:1 and debt-to-equity ratio of 0.74:1.

Capital Expenditure

In 2016, the Company spent \$52.2 million on capital expenditures as it continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. For 2017, the Company expects to spend US\$51.5 million for capital expenditures to build more complex and higher value-add manufacturing capabilities and growth platforms.

Key Performance Indicators of the Company

The table below sets forth the comparative performance indicators of the Company:

	As of the Years Ended		
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Performance indicators			
Liquidity:			
Current ratio ^a	1.51	1.54	1.73
Solvency:			
Debt-to-equity ratio ^b	0.74	0.48	0.41
	For the Years Ended December 31		
	2016	2015	2014
Operating efficiency:			
Revenue growth ^c	4%	(4%)	13%
Profitability:			

Return on equity ^d	12%	12%	13%
Return on common equity ^e	12%	13%	15%
Return on assets ^f	4%	6%	5%
EBITDA margin ¹⁵	8%	7%	6%

^aCurrent assets/current liabilities

^bBank debts/Equity attributable to equity holders of the Parent Company

^c(Current year less previous year revenue)/Previous year revenue

^dNet income attributable to equity holders of the Parent Company/Average equity attributable to Parent

^eNet income attributable to equity holders of the Parent Company/Average common equity attributable to Parent

^fNet income attributable to equity holders of the Parent Company/Total Assets

In the above:

- (vii) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (viii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (ix) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (x) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.
- (xi) There were no significant elements of income or loss that did not arise from continuing operations.
- (xii) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes

(Increase or decrease of 5% or more in the financial statements)

Income Statement Items

(Year ended December 31, 2016 versus December 31, 2015)

149% increase in Non-operating expenses (-\$3.3M to -\$8.1M)

Mainly due to increase in interest expense related to various bank loans to fund acquisitions and expansions and increase in nonrecurring engineering expenses

15% increase in Provision for income tax (\$5.9M to \$6.8M)

¹⁵ EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization and foreign exchange gains (losses). EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

Increase in current tax due to higher tax base particularly in the Company's Europe operations

Balance Sheet items

(As of December 31, 2016, as restated, versus December 31, 2015)

15% decrease in Cash and cash equivalents (\$101.5M to \$86.5M)

Owing to increased capital expenditures and funding of acquisition through dividends from IMI BG

16% increase in Loans and receivables - net (\$169.3M to \$197.0M)

Revenue driven and integration of accounts of the newly-acquired VIA Optronics

20% increase in Inventories - net (\$88.3M to \$106.1M)

Increase of turnkey businesses and integration of accounts of the newly-acquired VIA

58% increase in Other current assets (\$10.9M to \$17.3M)

Increase in advances to suppliers

26% increase in Property, plant and equipment (\$93.1M to \$117.4M)

Increase in capital expenditures mainly for China and Mexico entities

95% increase in Goodwill (\$46.9M to \$91.4M)

Goodwill recognized in the acquisition of VIA +\$44.5M

664% increase in Intangible assets (\$2.4M to \$18.3M)

Capitalized costs arising from the development phase of certain projects under qualification

28% increase in Accounts payable and accrued expenses (\$152.8M to \$195.7M)

Mainly due to increase in trade and nontrade payables, advances from related parties representing deposits received related to a sale and purchase agreement and financial liabilities pertaining to commercial agreements of VIA with certain customers.

The following table sets forth the Company's accrued compensation, benefits and expenses as of December 31, 2016 versus the year ended December 31, 2015:

	2016	2015
	(in US\$'000)	
Compensation and benefits	\$21,554	\$23,263
Taxes	3,787	3,981
Professional fees	1,331	1,321
Light and water	1,141	1,232
Sales return	382	636
Subcontracting costs	157	340
Sales commission	131	144
Supplies	206	1,073
Interest payable	769	509
Others	9,673	7,007
	<u>\$39,131</u>	<u>\$39,506</u>

22% increase in Trust receipts and loans payable (\$42.3M to \$51.4M)

Existing loan of VIA Optronics (\$7.9M) and additional loan of IMI Czech (\$1.1M)

Increase in Financial liabilities on put options (\$0 to \$11.3M)

Put options recognized in the acquisition of VIA measured at the fair value of the redemption amount

81% decrease in Current Portion of Long-term debt (\$43M to \$8.2M)

Refinancing of \$40M loan of IMI Philippines to long-term

250% increase in Long-term debt (\$34.6M to \$121.1M)

Additional loan obtained to fund the acquisition of VIA (\$40M) and refinancing of existing \$40M loan to long-term

29% decrease in Pension liability (\$5.8M to \$4.1M)

Due to curtailment

14% decrease in Additional paid-in capital (\$82.5M to \$70.9M)

Put option related to VIA debited against equity

25% increase in Cumulative translation adjustments losses (-\$16.5M to -\$20.6M)

Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency.

2015 vs. 2014

Revenues from Sales and Services

The company's consolidated revenues of \$814.4 million went down by 4 percent year over year due mainly to a weak euro and the downturn in the computing and telecommunications segments. Excluding the impact of changes in currency exchange, automotive revenues climbed by 21 percent during the year and total revenues by 2 percent.

The revenue headwinds were offset by IMI's strong volume growth in the automotive segment. In particular, its advanced driver assistance systems or ADAS programs (such as automotive camera programs) posted a 66 percent increase in revenues in 2015.

IMI's China operations recorded \$279.3 million in revenues in 2015, a 14 percent decline from the previous year as the 4G telecommunications network rollout in China reaches its projected volume and the consumer electronics segment experiences a slowdown.

IMI's Europe and Mexico operations recorded combined revenues of \$267.4 million, flat from last year. The persistent weakness in the euro resulted in a 3 percent revenue decline for IMI's Bulgaria and Czech Republic factories. In Mexico, IMI revenues increased by 9 percent due to higher demand for plastic injection and assembly. Overall revenues for IMI's Europe and Mexico plants would have increased by 15 percent if not for the weak euro.

IMI's electronics manufacturing services operations in the Philippines posted \$225.3 million in revenues, a 10 percent growth from \$204.9 million in 2014 due to a strong demand for automotive cameras and security and access control devices.

PSi Technologies Inc., posted \$42.3 million in revenues, down 5.8 percent year-over-year due to low volume hit rate of certain models.

The Company continues to make advances on initiatives started some five years ago such as focus on high-margin segments, full integration of acquisitions, rationalization of costs, expansion of global footprint, and

development of human capital and equipment. The company's automotive electronics business now accounts for 43% of IMI's total revenues and grew 9% year-on-year. The telecom industry is still second to the top contributors accounting for 19% of the total business, although slowdown was anticipated due to normalization of 4G rollout. Industrial segment continues to grow by 12% year-over-year from strong demand in security and access control devices.

Europe remains to be the dominant market of the company's products, comprising 52% of global sales, followed by America at 25%.

Cost of Goods Sold and Services

Cost of sales lower by 4% mainly from cessation of labor-intensive consignment businesses which is one of the reasons for the revenue drop.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US\$94.0 million, at par with last year despite challenges in topline figures. Revenue headwinds and weak euro were offset by strong demand in auto and industrial business segment and improved capacity, efficiency and quality in our Mexico facility. GP% improved from 11.1% to 11.5%.

Operating Expenses

The Company's operating expenses decreased by 13% due to reversal of prior year excess accruals, lower accrual for benefits, decrease in inventory provisions, software costs, taxes and licenses, sales commission expenses and travel and transportation.

Net Income

The Company generated US\$28.79 million net income, almost flat from \$29.1 million in 2014 despite volatility in the foreign currency markets and weakness in China's economy. NIAT% better at 3.5% despite revenue and FX challenges.

EBITDA

EBITDA higher by US\$6.0 million or 11% evident at operating income level with growth of 28% from last year, however, offset by foreign exchange impact by US\$2.4 million due to RMB devaluation against USD.

Financial Condition

The company's balance sheet at the end of 2015 remains strong. The current ratio and debt-to-equity ratio are at 1.54:1 and 0.48:1, respectively.

Capital Expenditure

For the full year 2015, the Company's capital expenditures amounted to US\$35.1 million in line with the company's renewed focus on higher margin market segments. For 2016, the Company expects to spend US\$40.8 million for capital expenditures to be partially funded by the remaining balance of the proceeds from the follow-on offering, cash from operations and debt. This will support on-going expansion programs particularly in Mexico, China and the Philippines.

Key Performance Indicators of the Company

The table below sets forth the comparative performance indicators of the Company:

Performance indicators	As of the Years Ended		
	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Liquidity:			
Current ratio ^a	1.54	1.73	1.53
Solvency:			
Debt-to-equity ratio ^b	0.48	0.41	0.48
	For the Years Ended		
	2015	2014	2013
Operating efficiency:			
Revenue growth ^c	(4%)	13%	13%
Profitability:			
Return on equity ^d	12%	13%	5%
Return on common equity ^e	13%	15%	6%
Return on assets ^f	6%	5%	2%
EBITDA margin ¹⁶	7%	6%	5%

^a Current assets/current liabilities

^b Bank debts/Equity attributable to equity holders of the Parent Company

^c (Current year less previous year revenue)/Previous year revenue

^d Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent

^e Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent

^f Net income attributable to equity holders of the Parent Company/Total Assets

In the above:

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

- (iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.
- (v) There were no significant elements of income or loss that did not arise from continuing operations.
- (vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes

(Increase or decrease of 5% or more in the financial statements)

Income Statement Items

(Year ended December 31, 2015 versus December 31, 2014)

13% decrease in Operating expenses (\$64.2M to \$56.1M)

The Company's operating expenses decreased by 13% due to reversal of prior year excess accruals, lower accrual for benefits, decrease in inventory provisions, software costs, taxes and licenses, sales commission expenses and travel and transportation.

159% decrease in Non-operating items (\$5.5M to -\$3.3M)

Recognition of gain on sale of property in SG (\$14M) and gain on insurance claims (\$0.3M), net of PSi goodwill impairment (-\$7.5M), forex loss of \$2.4M in 2015 due to RMB devaluation and lower rental income related to sale of property (↓0.8M).

5% decrease in Provision for income ta (\$6.2M to \$5.9M)

Decrease in current tax due to lower income tax base resulting from decreased revenues.

Balance Sheet items

(As of December 31, 2015 versus December 31, 2014)

14% decrease in Cash and cash equivalents (\$117.6M to \$101.5M)

Cash provided by operating activities +\$49.8M from positive results of operations; cash used in investing - \$35.3M mainly capital expenditures related to ongoing expansion programs; cash used in financing redemption of preferred shares - \$28.4M, dividend payment -\$8.6M and settlement of finance leases -\$2.3M.

13% decrease in Loans and receivables - net (\$195.1M to \$169.3M)

Mainly due to China and Europe's revenue drop.

8% decrease in Other current assets (\$11.9M to 10.9M)

From collection of tax credits offset by increase in advances to suppliers

14% increase in Property, plant and equipment (\$81.7M to \$93.1M)

Attributable to higher capital expenditures over depreciation.

40% decrease in Intangible assets (\$4.0M to \$2.4M)

Due to amortization of customer relationship recognized upon acquisition of Europe and Mexico subsidiaries (5-year amortization)

12% increase in Available-for-sale financial assets (\$522K to \$584KM)

Increase in fair value of club shares

12% decrease in Deferred income tax assets (\$1.7M to \$1.5M)

Decrease in deferred tax assets on loss carry overs.

16% decrease in Accounts payable and accrued expenses (\$182.1M to \$152.8M)

Mainly due to the decrease in trade payables of China and Europe and accrued expenses.

The following table sets forth the Company's accrued compensation, benefits and expenses as of December 31, 2015 versus the year ended December 31, 2014:

	2015	2014
Compensation and benefits	\$23,263,280	\$24,691,621
Taxes	3,981,289	5,005,217
Professional fees	1,321,161	2,311,496
Light and water	1,232,481	1,340,435
Sales return	636,024	1,233,490
Subcontracting costs	339,918	2,204,049
Sales commission	144,034	696,410
Supplies	1,072,819	2,612,679
Interest payable	509,027	449,305
Others	7,006,563	9,818,643
	\$39,506,596	\$50,363,345

19% decrease in Trust receipts and loans payable (\$52.1M to \$42.3M)

Net payment of short-term loans of IMI Philippines (\$4M) and STEL (\$5.5M)

31% decrease in Income tax payable (\$3.7M to \$2.5M)

Lower tax liability due to lower tax base.

1434% increase in Current Portion of Long-term debt (\$2.8M to \$43M)

Reclass of the \$40M long term loan due in 2016

40% decrease in Long-term debt (\$57.3M to \$34.6M)

Increase was mainly due to reclass of \$40M debt to current and third installment payment of Cooperatief to EPIQ NV of EUR 2M related to the European acquisition, offset by additional \$20M loan obtained by IMI Philippines.

22% decrease in Advances from customers (\$1.4M to \$1.1M)

Amortization of cash advances from a customer of PSi related to subcontracting service agreement.

23% increase in Pension liability (\$4.7M to \$5.8M)

Increase in current service cost and actuarial changes due to experience adjustments.

100% decrease in Obligations under finance lease (\$2.3M to nil)

Decrease was mainly due to full settlement of IMI BG's finance lease.

100% decrease in Capital stock - preferred (\$26.6M to nil)

Redemption of 1.3 billion preferred shares.

100% decrease in Retained earnings appropriated for expansion (\$20.7M to nil)

Decrease was due to the reversal of appropriation for business expansion.

36% increase in Retained earnings unappropriated (\$109.5M to \$149.4)

Net income +\$28.8M, reversal of appropriation (+\$20.7M), dividends (-\$7.9M); redemption of preferred shares (-\$1.6M)

32% decrease in Cumulative translation adjustments (-\$10.7M to -\$16.5M)

Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of USD against Europe subsidiaries' local currencies (BGN and CZK) with regard to its net assets. Local currencies are pegged against EUR which declined by 10%.

13% increase in Other comprehensive loss (-\$5.6M to -\$6.3M)

Actuarial changes due to experience adjustments.

FINANCIAL RATIOS

For the Period Ended December 31, 2017 and 2016 and December 31, 2016 (As Restated)

Ratios	Formula	Dec 31, 2017	Dec 31, 2016 (As Restated)
(i) Current ratio	Current assets / Current Liabilities	1.28	1.51
(ii) Quick ratio	Current assets less inventories and other current assets/Current liabilities	0.78	1.05
(iii) Debt/Equity ratio	Bank debts / Equity attributable to parent	1.08	0.74
(iv) Asset to Equity ratio	Total Assets / Equity attributable to parent	3.37	2.70
(v) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	7.05	9.89
(vi) Profitability ratios			
GP margin	Gross Profit / Revenues	11.9%	12.0%
Net profit margin	Net Income after Tax / Revenues	3.1%	3.3%
EBITDA margin	EBITDA / Revenues	6.4%	7.7%
Return on assets	Net Income after Tax / Total Asset	3.7%	4.4%
Return on equity	Net Income after Tax / Average equity attributable to parent	13.3%	12.0%
Return on common equity	Net Income after Tax / Average common equity attributable to parent	13.3%	12.0%

	(in US\$'000)	
	Dec 31, 2017	Dec 31, 2016 (As Restated)
Current Assets	580,412	406,975
Current Liabilities	452,349	270,091
Total Assets	921,352	639,128
Bank Debts	295,059	174,187
Equity attributable to parent	273,739	236,606
Average equity attributable to parent	255,173	234,425
Average common equity attributable to parent	255,173	234,425
Revenues	1,090,588	842,966
Gross Profit	129,599	101,309
Net income attributable to equity holders of the parent	34,002	28,116
Earnings before interest and taxes	48,640	38,413
Interest expense	6,901	3,884
EBITDA	70,342	64,967

NATURE AND SCOPE OF BUSINESS

Integrated Micro-Electronics, Inc. (IMI), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (“IMI Singapore”), IMI USA, Inc. (“IMI USA”), IMI Japan, Inc. (“IMI Japan”) and PSi Technologies Inc. (PSi) (collectively, IMI and its subsidiaries are referred to as the “Group”). IMI was previously 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

On March 29, 2017, AYC, transferred its 50.64% ownership in IMI to AC Industrial Technology Holdings, Inc. (AC Industrials), also a wholly-owned subsidiary of AC, through a special block sale of the shares as approved by the PSE on March 29, 2017.

AC is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public. The registered office address of IMI is North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

IMI was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

IMI is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products.

IMI Singapore is a strategic management, investment and holding entity that owns operating subsidiaries of the Group and is incorporated and is domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL on its own has subsidiaries located in Hong Kong, People’s Republic of China (PRC) and Singapore. STEL and its subsidiaries are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors, among others.

IMI Singapore established its Philippine Regional Operating Headquarters (also known as IMI International ROHQ or IMI ROHQ) in 2009. It serves as an administrative, communications and coordinating center for the affiliates and subsidiaries of the Group.

In 2011, IMI, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I de C.V.) (IMI MX) (collectively referred to as “IMI EU/MX Subsidiaries”) in 2011. IMI EU/MX Subsidiaries design and produce printed circuit board assemblies (PCBAs), engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and

industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development, and logistics management services.

In 2016, IMI, through Cooperatief acquired a 76.01% stake in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems.

In 2016, IMI acquired a property in the Republic of Serbia to strengthen its global footprint and support the growing market for automotive components in the European region. The manufacturing plant is still under construction and is expected to commence production by 2018.

In 2017, IMI, through its indirect subsidiary Integrated Micro-electronics UK Limited (IMI UK), acquired an 80% stake in Surface Technology International Enterprises Limited (STI), an EMS company based in the United Kingdom. STI has factories in the UK and Cebu, Philippines. STI provides electronics design and manufacturing solutions in both PCBA and full box-build manufacturing for high-reliability industries. The acquisition of STI will help strengthen the Group's industrial and automotive manufacturing competencies, broaden its customer base, and will also provide access to the UK market. Further, the partnership allows the Group's entry into the aerospace, security and defense sectors.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, surface mount technology (SMT), chip on flex, chip on board and flip chip on flex. IMI USA is also engaged in advanced manufacturing process development, engineering development, prototype manufacturing, and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

II. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

A) *Principal market where the registrant's common equity is traded.*

The following table shows the high and low prices (in PhP) of IMI's shares in the Philippine Stock Exchange in 2016 and 2017.

Philippine Stock Exchange
Prices in PhP/share

	<u>High</u>		<u>Low</u>		<u>Close</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
First Quarter	7.41	5.91	6.05	4.85	7.30	5.81
Second Quarter	13.70	6.00	7.61	5.40	13.30	5.63
Third Quarter	19.60	7.40	11.88	5.16	18.60	6.10
Fourth Quarter	22.30	6.23	17.18	5.79	18.82	6.08

The market capitalization of the Company's common shares as of December 31, 2017, based on the closing price of ₱18.82/share, was approximately ₱35.14 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 5, 2018, is ₱20.40per share.

B) *Holders*

There are approximately 328 registered common stockholders as of January 31, 2018. The following are the top 20 registered holders of common shares of the Company.

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AC Industrial Technology Holdings, Inc.	945,537,873	50.6368%
2.	Resins Incorporated	239,412,533	12.8213%
3.	PCD Nominee Corporation (Non-Filipino)	229,580,653	12.2948%
4.	EPIQ NV	200,000,000	10.7106%
5.	PDC Nominee Corporation (Filipino)	179,957,836	9.6373%
6.	2014 ESOWN Subscription	24,935,413	1.3353%
7.	2007 ESOWN Subscription	13,017,713	0.6971%
8.	2009 ESOWN Subscription	7,063,534	0.3782%
9.	2015 ESOWN Subscription	6,744,674	0.3612%
10.	SIIX Corporation	6,581,622	0.3524%
11.	Josef Pfister	1,656,660	0.0887%
12.	Ayala Corporation	1,379,892	0.0738%
13.	Helmut Baumgart	1,065,448	0.0570%
14.	Richard D. Bell	910,572	0.0487%
15.	Yeung Hin Wai	860,163	0.0460%
16.	Meneleo J. Carlos, Jr.	805,288	0.0431%
17.	Lucrecio B. Mendoza	540,245	0.0289%
18.	Philip Mathers	361,2000	0.0193%
19.	Allen B. Paniagua	357,726	0.0191%
20.	Transtechology Pte. Ltd.	304,836	0.0163%

On June 25, 2015, the Board of Directors of the Company approved the redemption of all of the Company's outstanding 1,300,000,000 Redeemable Preferred Shares which were issued in 2008. The redemption price of ₱1.00 per share and all accumulated unpaid cash dividends were paid on August 24, 2015 to the stockholders as of record date July 24, 2015.

C) Dividends

Stock Dividend-Common Shares

PAYMENT DATE	PERCENT	RECORD DATE
Sept. 24, 2010	15%	Aug. 31, 2010

Cash Dividends-Common Shares

PAYMENT DATE	RATE	RECORD DATE
March 19, 2014	USD 0.00140/ ₱0.06319	March 3, 2014
March 19, 2015	USD 0.0042/ ₱0.1868	March 4, 2015
March 10, 2016	USD 0.0046/ ₱0.2204	February 23, 2016
May 4, 2017	USD 0.004529/ ₱0.22739	April 20, 2017

Cash Dividends-Preferred Shares (Redeemed in 2015)

PAYMENT DATE	RATE	RECORD DATE
February 21, 2014	2.90% p.a.	February 7, 2014
May 21, 2014	2.90% p.a.	May 7, 2014
August 22, 2014	2.90% p.a.	August 7, 2014
November 21, 2014	2.90% p.a.	November 7, 2014
February 20, 2015	2.90% p.a.	February 6, 2015
May 22, 2015	2.90% p.a.	May 8, 2015
August 24, 2015	2.90% p.a.	August 7, 2015

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors. There are no other restrictions that limit the payment of dividends on common shares.

Cash dividends are subject to approval by the Company's Board of Directors but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Board of Directors and the stockholders of the Company. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

The Subsidiaries have not adopted any formal dividend policies. Dividend policies for the Subsidiaries shall be determined by their respective Boards of Directors.

Recent Sale of Securities

There were 9,743,144 shares subscribed by the Company's executives as a result of their subscription to the stock ownership (ESOWN) plan in 2015. No share was subscribed under the ESOWN Plan since 2016. On July 20, 2004, the SEC approved the issuance of 150,000,000 ESOWN shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

D) Corporate Governance

The Company submitted its Revised Manual on Corporate Governance to the SEC on 30 May 2017 in compliance with SEC memorandum Circular No. 13, series of 2016.

- (i) The evaluation system which was established to measure or determine the level of compliance of the Board and top level management with its Revised Manual of Corporate Governance consists of a Board Performance Assessment which is accomplished by the members of the Board indicating the compliance ratings. The above is submitted to the Compliance Officer who issues the Annual Corporate Governance Report ("ACGR") every five years and the Consolidated Changes in the ACGR yearly to the SEC.
- (ii) To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.
- (iii) The Company has adopted in the Revised Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.
- (iv) The Company is taking further steps to enhance adherence to principles and practices of good corporate governance through the adoption of the Revised Code of Corporate Governance. In line with this, the Board also adopted the Charter of the Board of Directors on 25 January 2015.

Upon the written request of the stockholders, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

Integrated Micro-Electronics, Inc.
North Science Avenue
Special Export Processing Zone
Laguna Technopark
Bo. Biñan, Biñan, Laguna

Attention: Mr. Jerome S. Tan
Global Chief Finance Officer

CERTIFICATION OF INDEPENDENT DIRECTOR

I, Edgar O. Chua, Filipino, of legal age and a resident of 229 Country Club Drive, Ayala Alabang Village, Muntinlupa City, MM 1708, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Integrated Micro-Electronics, Inc. and have been its independent director since April 4, 2014.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporation):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Cavitex Holdings Inc	President and Chief Executive	current
Energy Development Corp	Independent Director	current
Metrobank	Independent Director	current
Makati Business Club	Chairman	current
Philippine Eagle Foundation	Chairman	current
Philippine Business for Environment	Chairman	current
De La Salle University Board	Chairman	current
De La Salle Science Foundation	Chairman	current
Integrity Initiative	Chairman	current
College of Saint Benilde	Trustee	current
De La Salle Araneta Salikneta	Trustee	current
De La Salle National Mission Council	Trustee	current
Philippine Business for Education	Trustee	current
Gawad Kalinga Foundation	Trustee	current
Pilipinas Shell Foundation	Trustee	current
English Speaking Union of the Phil	Chairman	current
Philippine Disaster Relief Foundation	Trustee	current
Philippine British Business Council	Vice Chairman	current

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of Integrated Micro-Electronics, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Integrated Micro-Electronics, Inc. and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. *(where applicable)*.

NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
NA		

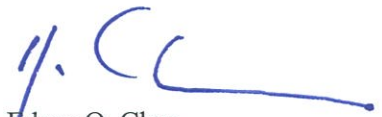
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

OFFENSE	TRIBUNAL OR	STATUS
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CHARGED/INVESTIGATED	AGENCY INVOLVED	
None		

6. I have the required written or consent from the Securities and Exchange Commission to be an independent director in Integrated Micro-Electronics Inc, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC Issuances.
8. I shall inform the Corporate Secretary of Integrated Micro-Electronics, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 08 2018 day of _____, at MAKATI CITY.


Edgar O. Chua
Affiant

SUBSCRIBED AND SWORN to before me this MAR 08 2018 day of _____ at MAKATI CITY,
affiant personally appeared before me and exhibited to me his/her passport no. FC1610571 issued
at DFA MANILA on 11 JULY 2014.

Doc. No. 46;
Page No. 11;
Book No. II;
Series of 2018.



Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.


MARIA PAULA G. ROMERO-BAUTISTA
Notary Public - Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 026373 - 01/11/2018 - Makati City
PTR No. 6628678MD - 01/11/2018 - Makati City
MCLE Compliance No. V-0017192- 03/28/2016
3rd Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

CERTIFICATION OF INDEPENDENT DIRECTOR

I, Hiroshi Nishimura, Filipino, of legal age and a resident of 1503A Cypress Point Ridge, Fort Bonifacio Taguig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Integrated Micro-Electronics, Inc. and have been its independent director since April 19, 2010.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporation):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Linkwest International Consultancy Services, Inc.	Chairman and President	April 12, 2008 to present
All Purpose Appliances and Multi Products, Inc.	Executive Vice-President	November 23, 2009 to present

I am not affiliated with any of Government-Owned and Controlled Corporation.

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of Integrated Micro-Electronics, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the director/officer/substantial shareholder of Integrated Micro-Electronics, Inc. and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC Issuances.
7. I shall inform the Corporate Secretary of Integrated Micro-Electronics, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this FEB 27 2018 day of _____, at MAKATI CITY.


Hiroshi Nishimura
Affiant

SUBSCRIBED AND SWORN to before me this FEB 27 2018 day of _____ at MAKATI CITY,
affiant personally appeared before me and exhibited to me his Passport No. TZ0841499 issued at Embassy
of Japan in the Philippines on July 17, 2013.

Doc. No. 442 ;
Page No. 90 ;
Book No. I ;
Series of 2018.

Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.




MARIA PAULA G. ROMERO-BAUTISTA
Notary Public - Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 026373 - 01/11/2018 - Makati City
PTR No. 6628678MD - 01/11/2018 - Makati City
MCLE Compliance No. V-0017192- 03/28/2016
3rd Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **SHERISA P. NUESA**, Filipino, of legal age, and resident of 306 Lian Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with the law, do hereby declare that:

- 1. I am a nominee for an independent director of Integrated Micro-Electronics, Inc. for its Annual Stockholders' Meeting on April 13, 2018,
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
ALFM Mutual Funds Group **	President/Board Director	May 2012
Far Eastern University, Inc.*	Independent Director	August 2010
East Asia Computer Center* Inc.	Board Director	March 2014
FERN Realty Corp.*	Board Director	August 2012
Manila Water Company	Independent Director	April 2013
Actimed/Generika Group *	Board Director	November 2015
Institute of Corporate Directors (ICD)	Board Trustee	May 2012
Financial Executives Institute of the Phils (FINEX)	Board Trustee	January 2016
Vicsal Development Corporation	Board Adviser/Consultant	March 2012
Metro Retail Stores, Group Inc. (MRSGI)	Senior Adviser to BoD	August 2015

* Independent Board Director/Trustee

** ALFM : Board Director since 2012; President since 2013

I am not affiliated with any Government-Owned and Controlled Corporation.

- 3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Integrated Micro-Electronics, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
- 4. I am not related to any director/officer/substantial shareholder of Integrated Micro-Electronics, Inc. and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
- 5. To the best of my knowledge, I am not the subject of any pending criminal investigation or proceeding;
- 6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC Issuances.
- 7. I shall inform the Corporate Secretary of Integrated Micro-Electronics, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done this 9th day of March 2018, at Makati City.

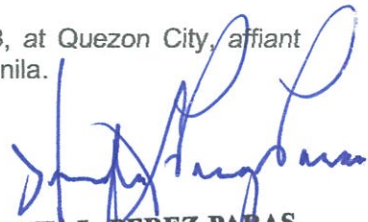

SHERISA P. NUESA
Affiant

SUBSCRIBED AND SWORN to before me this 09 day of March 2018, at Quezon City, affiant exhibited to me her Passport No. EC 1320564 issued on 04 June 2014 in Manila.

Doc. No. 332 ;
Page No. 68 ;
Book No. IV ;
Series of 2018.



Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.


NIMFA L. PEREZ-PARAS
Notary Public – Makati City
Appt. No. M-473 until December 31, 2018
Attorney's Roll No. 37625
PTR No. 6623529MD; 01-08-2018; Makati City
IBP Lifetime Roll No. 011985
MCLE Compliance No. V-0020970; 03 May 2016
27th Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue,
Makati City, Philippines

**Integrated Micro-Electronics, Inc.**

North Science Avenue
Special Export Processing Zone
Laguna Technopark
Biñan Laguna 4024 Philippines

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

Tel (63 2) 756 6840
Fax (63 49) 544 0322
www.global-imi.com

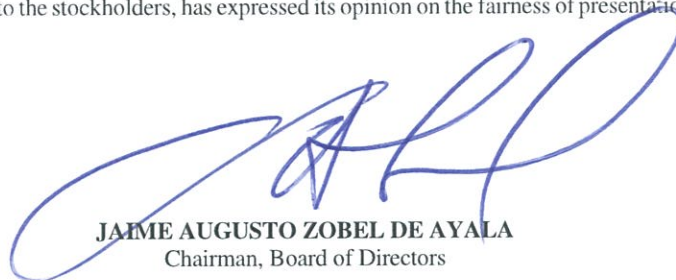
The management of Integrated Micro-electronics, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework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

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

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

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

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



JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors



ARTHUR R. TAN
Chief Executive Officer



JEROME S. TAN
Global Chief Financial Officer

SUBSCRIBED AND SWORN to before me this FEB 20 2018 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name
Jaime Augusto Zobel de Ayala
Arthur R. Tan
Jerome S. Tan

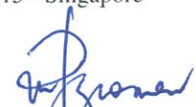
Passport No.
EC4856934
EB9832108
E5376564C

Date & Place of Issue
August 4, 2015 – Manila
December 17, 2013 – Manila
February 11, 2015 - Singapore

Doc. No. 766 ;
Page No. 75 ;
Book No. 1 ;
Series of 2018.



Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.



MARIA PAULA G. ROMERO-BAUTISTA
Notary Public – Makati City
Appt. No. 157 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 026373 - 01/11/2018 - Makati City
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Ayala Triangle, Ayala Avenue
Makati City, Philippines

Integrated Micro-Electronics, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017, 2016
and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Integrated Micro-Electronics, Inc.

Opinion

We have audited the consolidated financial statements of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.



The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Finalization of purchase price allocation in relation to the acquisition of VIA Optronics GmbH (VIA)

In 2017, the Group finalized the purchase price allocation for its 2016 acquisition of VIA. This resulted to the restatement of the carrying amount of the intellectual properties amounting to \$7.8 million, deferred tax liability of \$1.7 million and goodwill of \$44.5 million. As the valuation of the intellectual properties required significant management judgment and is based on estimates, specifically revenue forecast, royalty rate, tax rate and discount rate, this requires our significant attention in the 2017 audit. The Group's disclosures about the acquisition of VIA are included in Note 2 to the consolidated financial statements.

Audit response

We involved our internal specialists in testing the fair value of the intellectual properties, including the evaluation of the methodologies and key assumptions used. These assumptions include revenue forecast, royalty rate, tax rate and discount rate. We evaluated the revenue forecast against VIA's recent financial performance and industry outlook. We compared the royalty rate against the royalty agreement between VIA Optronics GmbH and VIA Optronics (Suzhou), LLC. We evaluated the tax rate used against the effective tax rate in Germany and tested the parameters used in the derivation of the discount rate against market data. We checked the mathematical accuracy of the finalized purchase price allocation and reviewed the presentation and disclosures in the consolidated financial statements.

Valuation of the put options arising from the acquisition of VIA and STI Enterprises Ltd. (STI)

The terms of the acquisition of VIA in 2016 and STI in 2017 included put options that granted the non-controlling shareholders the right to sell their shares in the acquiree to the Group. The put options resulted in a financial liability of \$21.9 million as of December 31, 2017. We considered the valuation of the put options to be a key audit matter because it requires significant judgment and is based on estimates, specifically revenue growth rate, EBITDA multiple, discount rate, forecasted interest rate and the probability of trigger events occurring. Details of the transactions and the valuation of the put options are disclosed in Notes 2 and 32 to the consolidated financial statements, respectively.

Audit response

We involved our internal specialists in testing the fair values of the put options including the evaluation of the methodologies and key assumptions used. These assumptions include revenue growth rate, EBITDA multiple, discount rate, forecasted interest rate and probability of trigger events occurring. We evaluated the revenue growth rate against the acquirees' recent financial performance, the Group's business plan for the acquirees and industry outlook. We evaluated the EBITDA multiple against market data of comparable companies. We tested the parameters used in the derivation of the discount rate against market data. We compared the interest rate used in forecasting the future equity value to the risk-free rate in Germany and the United Kingdom and inquired with management its basis for the probability of trigger events occurring.



Recoverability of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2017, the Group's goodwill attributable to the following cash-generating units (CGUs): Integrated Micro-Electronics, Inc., Speedy-Tech Electronics, Ltd., IMI Czech Republic s.r.o., VIA and STI, amounted to \$147.4 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, gross margin and discount rate. The Group's disclosures about goodwill are included in Note 10 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and assumptions used. These assumptions include revenue growth rate, gross margin and discount rate. We compared the key assumptions used such as revenue growth rate against actual historical performance of the CGU and industry outlook and gross margins against historical rates. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is more sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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



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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Carlo Paolo V. Manalang.

SYCIP GORRES VELAYO & CO.



Carlo Paolo V. Manalang

Partner

CPA Certificate No. 111947

SEC Accreditation No. 1625-A (Group A),

March 28, 2017, valid until March 27, 2020

Tax Identification No. 210-730-804

BIR Accreditation No. 08-001998-127-2017,

February 9, 2017, valid until February 8, 2020

PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016 (As Restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	\$90,627,228	\$86,548,735
Receivables (Note 6)	263,115,347	196,969,136
Inventories (Note 7)	199,614,807	106,132,529
Other current assets (Note 8)	27,054,631	17,324,415
Total Current Assets	580,412,013	406,974,815
Noncurrent Assets		
Property, plant and equipment (Note 9)	164,596,056	117,405,004
Goodwill (Note 10)	147,370,912	91,416,180
Intangible assets (Note 11)	22,898,566	18,317,066
Available-for-sale financial assets (Notes 12 and 32)	831,364	740,949
Deferred tax assets - net (Note 25)	3,451,802	1,552,362
Other noncurrent assets (Note 13)	1,790,915	2,722,058
Total Noncurrent Assets	340,939,615	232,153,619
	\$921,351,628	\$639,128,434
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	\$284,278,710	\$195,675,305
Loans and trust receipts payable (Note 15)	135,057,620	51,445,169
Other financial liabilities (Notes 2, 18 and 32)	22,317,860	11,334,282
Current portion of long-term debt (Note 16)	6,872,679	8,185,053
Income tax payable	3,821,856	3,451,416
Total Current Liabilities	452,348,725	270,091,225
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 16 and 32)	158,224,056	121,144,043
Obligation under finance lease (Note 30)	223,771	—
Advances from customers (Note 17)	—	1,137,865
Net retirement liabilities (Note 27)	5,132,145	4,091,990
Deferred tax liabilities - net (Note 25)	2,742,454	3,034,385
Accrued rent (Note 30)	—	84,731
Other noncurrent liabilities (Notes 18 and 32)	26,085,878	216,253
Total Noncurrent Liabilities	192,408,304	129,709,267
Total Liabilities	644,757,029	399,800,492

(Forward)



	December 31	
		2016
		(As Restated -
	2017	Note 2)
EQUITY		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common (Note 19)	\$35,709,679	\$34,935,709
Subscribed capital stock (Note 19)	1,058,278	1,857,440
Additional paid-in capital (Note 19)	58,121,266	70,927,567
Subscriptions receivable (Note 19)	(5,351,844)	(12,334,692)
Retained earnings (Note 19)	194,499,540	168,932,158
Treasury stock (Note 19)	(1,012,588)	(1,012,586)
Reserve for fluctuation on available-for-sale financial assets	454,457	368,531
Cumulative translation adjustment (Note 2)	(2,302,277)	(20,639,608)
Remeasurement losses on defined benefit plans (Note 27)	(7,437,096)	(6,428,260)
	273,739,415	236,606,259
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries		
	2,855,184	2,721,683
Total Equity	276,594,599	239,327,942
	\$921,351,628	\$639,128,434

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Sale of goods	\$1,020,145,452	\$774,643,182	\$750,514,863
Sale of services	70,442,737	68,323,242	63,849,241
	1,090,588,189	842,966,424	814,364,104
COST OF SALES (Note 20)			
Cost of goods sold	894,418,894	680,844,830	663,659,753
Cost of services	66,570,649	60,812,213	56,672,880
	960,989,543	741,657,043	720,332,633
GROSS PROFIT	129,598,646	101,309,381	94,031,471
OPERATING EXPENSES (Note 21)	(89,160,675)	(58,366,442)	(56,098,525)
OTHERS - Net			
Interest expense and bank charges (Note 23)	(6,900,807)	(3,884,454)	(2,716,385)
Mark-to-market gains (loss) on put options (Notes 2 and 32)	2,298,664	(40,785)	—
Foreign exchange gains (losses) - net	1,273,773	(2,437,818)	(2,419,021)
Interest income (Note 5)	166,246	294,035	658,003
Miscellaneous income (loss) - net (Note 24)	4,629,485	(2,051,364)	1,219,977
	1,467,361	(8,120,386)	(3,257,426)
INCOME BEFORE INCOME TAX	41,905,332	34,822,553	34,675,520
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	7,982,335	6,942,950	5,731,204
Deferred	(519,741)	(136,306)	174,204
	7,462,594	6,806,644	5,905,408
NET INCOME	\$34,442,738	\$28,015,909	\$28,770,112
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	\$34,001,982	\$28,115,891	\$28,789,740
Non-controlling interests	440,756	(99,982)	(19,628)
	\$34,442,738	\$28,015,909	\$28,770,112
Earnings Per Share (Note 26)			
Basic and diluted	\$0.018	\$0.015	\$0.015

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES **CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2017	2016	2015
NET INCOME	\$34,442,738	\$28,015,909	\$28,770,112
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified into profit or loss in subsequent periods:</i>			
Exchange differences arising from translation of foreign operations	18,337,331	(4,094,917)	(5,835,345)
Fair value changes on available-for-sale financial assets - net of tax	85,926	117,501	66,911
	18,423,257	(3,977,416)	(5,768,434)
<i>Other comprehensive loss not to be reclassified into profit or loss in subsequent periods:</i>			
Remeasurement losses on defined benefit plans (Note 27)	(1,008,836)	(132,587)	(722,109)
	17,414,421	(4,110,003)	(6,490,543)
TOTAL COMPREHENSIVE INCOME	\$51,857,159	\$23,905,906	\$22,279,569
Total Comprehensive Income (Loss)			
Attributable to:			
Equity holders of the Parent Company	\$51,416,403	\$24,005,888	\$22,299,197
Non-controlling interests	440,756	(99,982)	(19,628)
	\$51,857,159	\$23,905,906	\$22,279,569

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015

	Attributable to Equity Holders of the Parent Company						Other Comprehensive Income (Loss)			Attributable to Non-controlling Interests	Total
	Capital Stock - Common (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings (Note 19)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasurement losses on defined benefit plans (Note 27)		
Balances at January 1, 2017, as previously reported	\$34,935,709	\$1,857,440	\$70,927,567	(\$12,334,692)	\$168,932,158	(\$1,012,586)	\$368,531	(\$20,639,608)	(\$6,428,260)	\$1,260,871	\$237,867,130
Effect of finalization of business combination (Note 2)	-	-	-	-	-	-	-	-	-	1,460,812	1,460,812
Balances at January 1, 2017, as restated	34,935,709	1,857,440	70,927,567	(12,334,692)	168,932,158	(1,012,586)	368,531	(20,639,608)	(6,428,260)	2,721,683	239,327,942
Issued shares during the year	773,970	(773,970)	-	-	-	-	-	-	-	-	-
Cost of share-based payments (Note 28)	-	-	262,618	-	-	-	-	-	-	-	262,618
Reacquired shares	-	-	-	-	-	(2)	-	-	-	-	(2)
Collections on subscriptions	-	-	-	6,765,378	-	-	-	-	-	-	6,765,378
Forfeitures during the year	-	(25,192)	(192,278)	217,470	-	-	-	-	-	-	-
Effect of recognition of financial liability arising from put option on business combination (Note 2)	-	-	(12,876,641)	-	-	-	-	-	-	-	(12,876,641)
Decrease in non-controlling interest due to acquisition of a subsidiary during the year (Note 2)	-	-	-	-	-	-	-	-	-	(307,255)	(307,255)
Cash dividends	-	-	-	-	(8,434,600)	-	-	-	-	-	(8,434,600)
	35,709,679	1,058,278	58,121,266	(5,351,844)	160,497,558	(1,012,588)	368,531	(20,639,608)	(6,428,260)	2,414,428	224,737,440
Net income	-	-	-	-	34,001,982	-	-	-	-	440,756	34,442,738
Other comprehensive income (loss)	-	-	-	-	-	-	85,926	18,337,331	(1,008,836)	-	17,414,421
Total comprehensive income (loss)	-	-	-	-	34,001,982	-	85,926	18,337,331	(1,008,836)	440,756	51,857,159
Balances at December 31, 2017	\$35,709,679	\$1,058,278	\$58,121,266	(\$5,351,844)	\$194,499,540	(\$1,012,588)	\$454,457	(\$2,302,277)	(\$7,437,096)	\$2,855,184	\$276,594,599



Attributable to Equity Holders of the Parent Company

	Attributable to Equity Holders of the Parent Company						Other Comprehensive Income (Loss)					Total
	Capital Stock - Common (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings (Note 19)	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasurement losses on defined benefit plans (Note 27)	Other Reserves	Attributable to Non-controlling Interests(As restated - Note 2)	
Balances at January 1, 2016	\$34,933,728	\$1,907,584	\$82,527,542	(\$13,131,734)	\$149,437,014	(\$1,012,586)	\$251,030	(\$16,544,691)	(\$6,295,673)	\$170,714	\$194,836	\$232,437,764
Issued shares during the year	1,981	(1,981)	—	—	—	—	—	—	—	—	—	—
Cost of share-based payments (Note 28)	—	—	744,130	—	—	—	—	—	—	—	—	744,130
Collections on subscriptions	—	—	—	462,377	—	—	—	—	—	—	—	462,377
Forfeitures during the year	—	(48,163)	(286,502)	334,665	—	—	—	—	—	—	—	—
Effect of recognition of financial liability arising from put options on business combination (Note 2)	—	—	(12,057,603)	—	—	—	—	—	—	—	—	(12,057,603)
Increase in non-controlling interest due to acquisition of a subsidiary during the year (Note 2)	—	—	—	—	—	—	—	—	—	—	2,816,416	2,816,416
Acquisition of non-controlling interests (Note 2)	—	—	—	—	—	—	—	—	—	(170,714)	(189,587)	(360,301)
Cash dividends	—	—	—	—	(8,620,747)	—	—	—	—	—	—	(8,620,747)
	34,935,709	1,857,440	70,927,567	(12,334,692)	140,816,267	(1,012,586)	251,030	(16,544,691)	(6,295,673)	—	2,821,665	215,422,036
Net income (loss)	—	—	—	—	28,115,891	—	—	—	—	—	(99,982)	28,015,909
Other comprehensive income (loss)	—	—	—	—	—	—	117,501	(4,094,917)	(132,587)	—	—	(4,110,003)
Total comprehensive income (loss)	—	—	—	—	28,115,891	—	117,501	(4,094,917)	(132,587)	—	(99,982)	23,905,906
Balances at December 31, 2016, (As restated - Note 2)	\$34,935,709	\$1,857,440	\$70,927,567	(\$12,334,692)	\$168,932,158	(\$1,012,586)	\$368,531	(\$20,639,608)	(\$6,428,260)	\$—	\$2,721,683	\$239,327,942



Attributable to Equity Holders of the Parent Company

	Other Comprehensive Income (Loss)													Total
	Capital Stock - Common (Note 19)	Capital Stock - Preferred (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings Appropriated for Expansion (Note 19)	Retained Earnings Unappropriated (Note 19)	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasureme nt losses on defined benefit plans (Note 27)	Other Reserves	Attributable to Non-controlling Interests	
Balances at January 1, 2015	\$34,876,616	\$26,601,155	\$1,797,638	\$80,480,981	(\$12,906,784)	\$20,660,981	\$109,481,277	(\$1,012,586)	\$184,119	(\$10,709,346)	(\$5,573,564)	\$170,714	\$214,464	\$244,265,665
Issued shares during the year	57,112	—	(57,112)	—	—	—	—	—	—	—	—	—	—	—
Redemption of preferred shares	—	(26,601,155)	—	—	—	—	(1,834,644)	—	—	—	—	—	—	(28,435,799)
Subscriptions during the year (Note 28)	—	—	222,366	913,925	(1,136,291)	—	—	—	—	—	—	—	—	—
Collections on subscriptions	—	—	—	—	460,634	—	—	—	—	—	—	—	—	460,634
Forfeitures during the year	—	—	(55,308)	(395,399)	450,707	—	—	—	—	—	—	—	—	—
Cost of share-based payments (Note 28)	—	—	—	1,528,035	—	—	—	—	—	—	—	—	—	1,528,035
Reversal of appropriated retained earnings	—	—	—	—	—	(20,660,981)	20,660,981	—	—	—	—	—	—	—
Reversal of cash dividends declared in advance	—	—	—	—	—	—	207,625	—	—	—	—	—	—	207,625
Cash dividends	—	—	—	—	—	—	(7,867,965)	—	—	—	—	—	—	(7,867,965)
	34,933,728	—	1,907,584	82,527,542	(13,131,734)	—	120,647,274	(1,012,586)	184,119	(10,709,346)	(5,573,564)	170,714	214,464	210,158,195
Net income (loss)	—	—	—	—	—	—	28,789,740	—	—	—	—	—	(19,628)	28,770,112
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	66,911	(5,835,345)	(722,109)	—	—	(6,490,543)
Total comprehensive income (loss)	—	—	—	—	—	—	28,789,740	—	66,911	(5,835,345)	(722,109)	—	(19,628)	22,279,569
Balances at December 31, 2015	\$34,933,728	\$—	\$1,907,584	\$82,527,542	(\$13,131,734)	\$—	\$149,437,014	(\$1,012,586)	\$251,030	(\$16,544,691)	(\$6,295,673)	\$170,714	\$194,836	\$232,437,764

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016 (As Restated - Note 2)	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	\$41,905,332	\$34,822,553	\$34,675,520
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	24,241,821	22,472,246	21,016,819
Interest expense (Note 23)	5,723,185	3,297,733	2,208,551
Amortization of intangible assets (Note 11)	4,387,950	1,989,548	2,231,851
Mark-to-market loss (gain) on put options (Note 2)	(2,298,664)	40,785	—
Reversal of impairment of property, plant and equipment (Note 9)	(815,150)	—	—
Impairment loss on product development cost (Note 11)	524,705	—	—
Cost of share-based payments (Note 28)	262,618	744,130	1,528,035
Interest income (Note 5)	(166,246)	(294,035)	(658,003)
Unrealized foreign exchange losses (gains) - net	131,591	(57,843)	412,921
Loss (gain) on sale and retirement of property, plant and equipment (Note 9)	(48,116)	143,034	(165,776)
Loss (gain) on derivative transactions (Note 33)	30,144	113,455	(225,162)
Gain on insurance claims (Notes 7 and 9)	—	(360,895)	—
Operating income before working capital changes	73,879,170	62,910,711	61,024,756
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(39,881,615)	(9,314,375)	18,436,043
Inventories	(75,590,879)	(13,299,183)	2,054,060
Other current assets	(9,499,046)	(5,365,246)	1,068,255
Increase (decrease) in:			
Accounts payable and accrued expenses	46,497,566	11,291,119	(26,235,224)
Advances from customers	(640,640)	2,029,988	(301,952)
Retirement liabilities	97,418	(1,569,301)	654,925
Accrued rent	(3,555)	(370,147)	(25,817)
Other noncurrent liabilities	123,259	(54,857)	(63,499)
Net cash generated from (used in) operations	(5,018,322)	46,258,709	56,611,547
Income tax paid	(7,945,950)	(6,025,529)	(6,848,877)
Interest paid	(5,416,600)	(3,037,688)	(2,148,829)
Interest received	166,246	306,506	667,492
Net cash provided by (used in) operating activities	(18,214,626)	37,501,998	48,281,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 9)	(61,872,944)	(48,344,218)	(35,120,182)
Intangible assets (Note 11)	(3,381,178)	(3,886,107)	(659,794)
Acquisition through business combination, net of cash acquired (Note 2)	(25,705,865)	(46,878,629)	—
Increase in advances from third party	14,233,872	6,538,462	—
Capitalized product development costs, excluding depreciation (Notes 11)	(4,459,707)	(4,004,265)	—
Proceeds from sale and retirement of property, plant and equipment	1,940,767	289,493	672,955
Decrease (increase) in other noncurrent assets	864,080	(531,198)	(154,315)
Net cash used in investing activities	(78,380,975)	(96,816,462)	(35,261,336)

(Forward)



Years Ended December 31			
	2017	2016 (As Restated - Note 2)	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	\$131,077,301	\$265,905,842	\$50,465,041
Payments of:			
Loans payable	(20,419,648)	(129,611,778)	(38,053,777)
Long-term debt	(9,177,386)	(83,007,267)	(2,397,400)
Dividends paid to equity holders of the Parent Company (Note 19)	(8,434,600)	(8,620,747)	(8,559,041)
Collections of subscriptions receivable (Note 19)	6,765,378	462,377	460,634
Settlement of derivatives (Note 33)	56,495	(114,400)	169,612
Cash paid on acquisition of non-controlling interests (Note 2)	—	(360,301)	—
Redemption of preferred shares (Note 19)	—	—	(28,435,799)
Decrease in obligations under finance lease	—	—	(2,257,583)
Net cash provided by (used in) financing activities	99,867,540	44,653,726	(28,608,313)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	806,554	(322,936)	(504,766)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,078,493	(14,983,674)	(16,093,082)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	86,548,735	101,532,409	117,625,491
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	\$90,627,228	\$86,548,735	\$101,532,409

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Integrated Micro-Electronics, Inc. (IMI or the Parent Company), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the Group). The Parent Company was previously 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

On March 29, 2017, AYC, transferred its 50.64% ownership in the Parent Company to AC Industrial Technology Holdings, Inc. (AC Industrials), also a wholly-owned subsidiary of AC, through a special block sale of the shares of the Parent Company on March 29, 2017 as approved by the PSE on the same date. This transaction was granted exemptive relief from the application of the mandatory tender offer rules by the Philippine Securities and Exchange Commission on March 21, 2017.

AC is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public.

The registered office address of the Parent Company is North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products.

IMI Singapore is a strategic management, investment and holding entity that owns operating subsidiaries of the Group and was incorporated and domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and domiciled also in Singapore. STEL, on its own, has subsidiaries located in Hong Kong, China, and the Philippines. STEL and its subsidiaries (collectively referred to as the STEL Group) are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturers (OEMs) in the automotive, consumer electronics, telecommunications, industrial equipment, and medical device sectors, among others.

In 2009, IMI Singapore established its Philippine Regional Operating Headquarters (IMI International ROHQ or IMI ROHQ). It serves as an administrative, communications and coordinating center for the affiliates and subsidiaries of the Group.

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and



tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

In 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. The Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2016, IMI acquired a property in the Republic of Serbia to strengthen its global footprint and support the growing market for automotive components in the European region. The manufacturing plant is still under construction and is expected to commence production by 2018.

In 2017, IMI, through its indirect subsidiary Integrated Micro-electronics UK Limited (IMI UK), acquired an 80% stake in Surface Technology International Enterprises Limited (STI), an EMS company based in the United Kingdom. STI has factories in the UK and Cebu, Philippines. STI provides electronics design and manufacturing solutions in both PCBA and full box-build manufacturing for high-reliability industries. The acquisition of STI will help strengthen the Group's industrial and automotive manufacturing competencies, broaden its customer base, and will also provide access to the UK market. Further, the partnership allows the Group's entry into the aerospace, security and defense sectors.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, surface mount technology (SMT), chip on flex, chip on board and flip chip on flex. IMI USA is also engaged in advanced manufacturing process development, engineering development, prototype manufacturing and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

PSi is a power semiconductor assembly and test services company serving niche markets in the global power semiconductor market. PSi provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

The consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Parent Company's Board of Directors (BOD) on February 20, 2018.



2. Group Information

Information about Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiary	Percentage of Ownership		Country of Incorporation	Functional Currency
	2017	2016		
IMI International (Singapore) Pte. Ltd.	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI International ROHQ	100.00%	100.00%	Philippines	USD
Speedy-Tech Electronics Ltd. (STEL) Group	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD)	100.00%	100.00%	China	Renminbi (RMB)
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE) ^a	100.00%	100.00%	China	USD
IMI Technology (Shenzhen) Co. Ltd. ^a	100.00%	–	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	100.00%	100.00%	China	USD
Speedy-Tech (Philippines), Inc. (STPH) ^b	100.00%	100.00%	Philippines	USD
Cooperatief IMI Europe U.A. ^c	100.00%	100.00%	Netherlands	Euro (EUR)
Integrated Micro-Electronics Bulgaria EOOD ^d	100.00%	100.00%	Bulgaria	EUR
Microenergia EOOD (Microenergia)	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)
Integrated Micro-Electronics d.o.o. Niš	100.00%	100.00%	Serbia	Serbian Dinar (RSD)
Integrated Micro-Electronics Czech Republic s.r.o. ^e	100.00%	100.00%	Czech Republic	EUR
IMI Display s.r.o. ^f	100.00%	–	Czech Republic	EUR
Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. ^g	100.00%	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	100.00%	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	100.00%	100.00%	France	EUR
VIA Optronics GmbH (VIA)	76.01%	76.01%	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou)	76.01%	76.01%	China	RMB
VIA Optronics LLC (VIA LLC)	76.01%	76.01%	USA	USD
Integrated Micro-Electronics UK Limited (IMI UK)	100.00%	–	United Kingdom	British Pounds (GBP)
Surface Technology International Enterprises Ltd (STI)	80.00%	–	United Kingdom	GBP
STI Limited	80.00%	–	United Kingdom	GBP
STI Philippines Inc.	80.00%	–	Philippines	PHP
STI Asia Ltd	80.00%	–	Hong Kong	Hong Kong Dollar (HKD)
STI Supplychain Ltd ^h	80.00%	–	United Kingdom	GBP
IMI USA	100.00%	100.00%	USA	USD
IMI Japan	100.00%	100.00%	Japan	USD
PSi	100.00%	100.00%	Philippines	USD
PSiTech Realty, Inc. (PSiTech Realty) ⁱ	40.00%	40.00%	Philippines	USD
Pacsem Realty, Inc. (Pacsem Realty) ⁱ	64.00%	64.00%	Philippines	USD

^a New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. SZSTE is being sold to a third party

^b STPH's business operations were integrated as part of the Parent Company in 2013 wherein a Deed of Assignment was executed between the Parent Company and STPH. STPH is a dormant company.

^c Previously under Monarch Elite Ltd. in June 2017, Monarch agreed to sell its net assets and transfer its membership rights to IMI Singapore. Monarch is in the process of liquidation.

^d On January 01, 2016, IMI BG changed its functional currency from BGN to EUR.

^e On January 01, 2017, IMI CZ changed its functional currency from CZK to EUR.

^f No current operation.

^g On March 01, 2014, IMI MX changed its functional currency from MXP to USD.

^h In the process of liquidation

ⁱ On June 21, 2012, the BOD of PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval. As of February 20, 2018, such approval is still pending.

Business Combinations

Acquisition of STI

On April 6, 2017, IMI, through its indirect subsidiary IMI UK, has entered into an agreement with the shareholders of STI for the acquisition of an 80% stake in STI. The closing of the transaction transpired on May 16, 2017 upon completion of pre-closing conditions and regulatory approvals.



The provisional values of the identifiable assets and liabilities of STI at the date of acquisition follow:

Assets	
Cash and cash equivalents	\$4,044,635
Receivables	11,604,826
Inventories	13,896,786
Other current assets	3,951,940
Property, plant and equipment	5,983,710
Intangible assets	369,725
	<u>39,851,622</u>
Liabilities	
Trade payable and other current liabilities	24,441,769
Short and long-term debt	15,107,705
Other noncurrent liabilities	1,838,426
	<u>41,387,900</u>
Net Liabilities	<u>(\$1,536,278)</u>
Non-controlling interest (20.00%)	307,255
Provisional goodwill	55,954,732
Cost of Acquisition	<u>\$54,725,709</u>

The purchase price allocation for the acquisition of STI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The valuation had not been completed by the date the consolidated financial statements were approved for issue by the BOD of IMI. The provisional goodwill recognized on the acquisition can be attributed to STI's access to the UK market. Further, the partnership will allow the Group's entry into the aerospace, security and defense sectors.

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, STI contributed \$45.50 million of revenue and \$0.33 million profit before tax to the Group. If the combination had taken place at the beginning of the year, STI would have contributed revenue amounting to \$64.75 million and loss before tax amounting to \$6.32 million.

Analysis of cash flows on acquisition:

Initial purchase consideration	\$29,750,500
Contingent consideration	24,975,209
Cost of acquisition	<u>\$54,725,709</u>
Cash consideration	\$29,750,500
Less: Cash acquired from the subsidiary	4,044,635
Net cash flow (included in cash flows from investing activities)	<u>\$25,705,865</u>

The initial purchase consideration of £23.00 million (\$29.75 million) was paid in cash upon signing of the agreement. The contingent consideration will depend on the actual normalized earnings before interest, taxes, depreciation and amortization (EBITDA) performance less adjustments in 2018 and 2019. The contingent consideration was recognized at its fair value as part of the consideration transferred using the probability-weighted average of payouts associated with each possible outcome which resulted to an initial estimate amounting to £19.31 million (\$24.98 million).



The agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options, as follows:

Options	Holder of the Right	Description	Option Period	Option / Exercise Price
Call Option	IMI	Right to require each of the Founders to sell to the Buyer all (but not some) of the interests held by that Founder by service of an Option Notice by the Buyer on the Founder at any time during the Call Option Period	Period commencing upon the earliest of: - an Event of Defaultⁱ occurring in respect of that Founder; - a Leaver Eventⁱⁱ occurring; - the aggregate relevant proportion of the Founders falling to less than 10%; and - the fifth anniversary of the Shareholders Agreement (SA).	Where the Call Option Period commenced: - on the fifth anniversary of this SA and where no Event of Default has occurred - 100% of the fair valueⁱⁱⁱ of the relevant Option Interests - on the fifth anniversary of this SA but where an Event of Default has occurred - 90% - prior to the fifth anniversary of this SA as a result of a No Fault Leaver Event^{iv} - 100% - prior to the fifth anniversary of this Agreement as a result of the aggregate relevant proportion of the Founders falling to less than 10% - 100% - prior to the fifth anniversary of this SA other than (iii) and (iv) above - 90%
Put option	Founders (Singly or Collectively)	Right to require the Buyers to buy from each Founder all (but not some) of the interests held by that Founder by service of an Option Notice by the relevant Founder on the Buyers at any time during the Put Option Period	Period commencing upon the earlier of: - a No Fault Leaver Event occurring in respect of a Founder; - the aggregate relevant proportion of the Founders falling to less than 5%; and - the fifth anniversary of the SA.	100% of the fair value of the relevant Option Interests

Management assessed that it does not have present access to the returns associated with the non-controlling interest.

The call option is accounted for as a derivative asset carried at fair value through profit or loss. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative asset is nil.

ⁱ An Event of Default shall mean any of the following in respect of a Founder:

- that Founder commits any material breach of the SA or his contract or service, employment or consultancy with the Company or any member of the Group; or
- that Founder is convicted of any criminal offense (other than minor motoring offences not punishable with imprisonment); or
- that Founder commits any fraud with respect to the business of the STI Group; or
- that Founder enters or proposes to enter into any composition or arrangement with his creditors generally; or
- that Founder is declared bankrupt or otherwise unable to pay his debts as they fall due.

ⁱⁱ A Leaver Event means that the First Founder ceases to be an employee of a member of the STI Group, dedicating not less than 50% of his working time to the business.

ⁱⁱⁱ The fair value shall be determined in accordance with the following:

- promptly after the service of the Option Notice, the investors shall seek to agree the purchase price for the Option Interests which shall be the market value of the Option Interests on the date an Option Notice is served assuming a willing buyer and a willing seller and making no adjustment on account of any restrictions on the transfer of the Option Interests;
- if the investors agree the purchase price for such Option Interests it shall be binding on all investors and members of their respective investor groups; and
- in the event of any dispute as to the purchase price, the price in dispute shall be referred to a "Big Four" firm or an Expert.

^{iv} A No Fault Leaver Event means occurring prior to the fifth anniversary of the SA other than in circumstances where (i) the First Founder tenders his resignation (other than as a result of his permanent disability or incapacity or in circumstances where he is found to have been constructively dismissed); or (ii) the employment of the First Founder is terminated by his employer in circumstances justifying summary dismissal.



The Group accounted for the put option as a financial liability measured at the present value of the redemption amount, with a debit to "Additional paid-in capital" account, amounting to \$12.88 million on initial valuation. Mark-to-market gain amounting to \$2.64 million was recognized in the consolidated statements of income.

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to \$1.92 million were recognized as expense in the consolidated statements of income.

Acquisition of VIA

On August 16, 2016, Cooperatief and the shareholders of VIA entered into a sale and purchase agreement under which Cooperatief acquired a 76.01% stake in VIA for a total cash consideration of €47.79 million (\$53.46 million). The closing of the transaction transpired on September 14, 2016.

In 2016, the purchase price allocation for the acquisition of VIA has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

The Group finalized the purchase price allocation with the following changes to the provisional values based on additional information subsequently obtained:

Assets	Fair Values	Provisional Values
Cash and cash equivalents	\$6,584,881	\$6,584,881
Receivables	18,744,735	18,744,735
Inventories	5,448,266	5,448,266
Other current assets	660,401	660,401
Property, plant and equipment	3,149,309	3,149,309
Intangible asset	8,341,357	493,368
Deferred tax asset	558,287	558,287
Other noncurrent assets	158,792	158,792
	43,646,028	35,798,039
Liabilities		
Accounts payable and accrued expenses	18,240,811	18,240,811
Current portion of long-term debt	125,854	125,854
Loans payable	8,477,907	8,477,907
Other current liabilities	2,723,811	2,723,811
Long-term debt	209,169	209,169
Other noncurrent liabilities	152,692	152,692
Deferred tax liabilities	1,975,825	217,090
	31,906,069	30,147,334
Net Assets	\$11,739,959	\$5,650,705
Non-controlling interest (23.99%)	(2,816,416)	(1,355,604)
Goodwill	44,539,967	49,168,409
Cost of acquisition	\$53,463,510	\$53,463,510

The fair value of the intangible asset of VIA increased by \$7.85 million (see Note 11). The intangible asset is attributable to VIA's extensive experience and knowledge and certain know-how and other intellectual property (IP) rights in the field of developing and manufacturing optical bonded products, including materials and equipment for optical bonding and the optical bonding process. The 2016 comparative information was restated to reflect the adjustments to the provisional amounts. Accordingly, the goodwill, intangibles assets and non-controlling interest were restated. The goodwill recognized is not expected to be deductible for tax purposes.

The fair value of the IP was determined using the relief from royalty method taking into account the royalty savings of owning an IP. The IP is amortized over a period of 5 years.



Deferred tax liability on the increase in fair value of the intangible asset was recognized amounting to \$1.76 million. Derecognized deferred tax liability due to amortization of IP amounted to \$0.44 million for the year ended December 31, 2017.

The acquisition of VIA also has provisions regarding sale of additional shares from non-controlling interest through the grant of put and call options. The Group accounted for the call option as derivative asset at nil value. The Group accounted for the put options as financial liabilities measured at the present value of the redemption amounting to \$11.70 million and \$11.33 million as of December 31, 2017 and 2016, respectively. Mark-to-market loss amounting to \$0.34 million and \$0.41 million in 2017 and 2016, respectively was recognized in the consolidated statements of income.

Analysis of cash flows on acquisition:

Cost of acquisition	\$53,463,510
Less: Cash acquired from the subsidiary	6,584,881
<u>Net cash flow (Included in cash flows from investing activities)</u>	<u>\$46,878,629</u>

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, representation and travel expenses amounting to \$1.36 million were recognized as expense in 2016.

From the date of acquisition up to December 31, 2016, the Group's share in VIA's revenue and net loss amounted to \$19.41 million and \$0.39 million respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue would have increased by \$64.65 million while net income before tax would have decreased by \$0.08 million.

Acquisition of Non-controlling Interests

Acquisition of additional interest in SZSTE

On December 26, 2016, STEL acquired the remaining non-controlling interest in SZSTE for a total consideration of \$0.36 million.

The details of the transaction are as follows:

Non-controlling interest acquired	\$189,587
Consideration paid to the non-controlling shareholder	(360,301)
<u>Total amount recognized in "Other reserves" account within equity</u>	<u>(\$170,714)</u>

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in United States Dollar (USD) and all values are rounded to the nearest dollar, unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with PFRS.



Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- b. Exposure, or rights, to variable returns from its involvement with the investee, and
- c. The ability to use its power over the investee to affect its returns

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

- a. The contractual arrangement with the other vote holders of the investee
- b. Rights arising from other contractual arrangements
- c. The Group's voting rights and potential voting rights

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

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

In accounting for call and put options over non-controlling interests, management determines whether it has present access to the returns associated with the non-controlling interests. If the options give the Group access to the returns over the non-controlling interests, the Group consolidates the acquiree as if it acquired a 100% interest.

If the options does not give the Group present access to the returns over the non-controlling interests, the Group takes the view that the non-controlling interests should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements* and must be presented within equity separate from the equity of the Parent Company, until the option is exercised.

The call option is accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*, as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the



carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company. The difference is included as part of additional paid-in capital.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance, unless otherwise indicated.

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 35 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.



The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.



- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on its initial assessment, the requirements of PFRS 15 on the following may have an impact on the Group's consolidated financial position, performance and disclosures:

- Identification of services from assembly stage to packaging stage as one performance obligation
- Variable considerations such as prompt payment discounts, volume discounts, rebates, and price reduction
- Recognition of revenue over time given that 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.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

These amendments are not expected to have any impact on the Group.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a



change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

These amendments are not expected to have any impact to the Group.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

These amendments are not expected to have any impact to the Group.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.



Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

These amendments are not expected to have any impact to the Group.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may



result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the balance sheet date; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for trading;
- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Classification of financial instruments

Financial instruments within the scope of PAS 39 are classified as:

1. Financial assets and financial liabilities at FVPL;
2. Loans and receivables;
3. Held-to-maturity (HTM) investments;
4. AFS financial assets; and
5. Other financial liabilities.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2017 and 2016 consist of financial assets and financial liabilities at FVPL, loans and receivables, AFS financial assets, and other financial liabilities.



Date of recognition of financial instruments

Financial instruments are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Financial assets or financial liabilities at FVPL

Financial assets or financial liabilities at FVPL include derivatives, financial instruments held for trading and financial instruments designated upon initial recognition as at FVPL.

Derivatives, including separated embedded derivatives, are accounted for as financial assets or financial liabilities at FVPL, unless they are designated as effective hedging instruments or a financial guarantee contract. Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

The Group uses currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as non-hedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

1. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
2. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
3. The hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Financial instruments are classified as held for trading if they are entered into for the purpose of short-term profit-taking.

Financial instruments may be designated at initial recognition as financial assets or financial liabilities at FVPL if any of the following criteria is met:

1. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the instrument or recognizing gains or losses on a different basis; or
2. The financial instrument is part of a group of financial instruments which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
3. The financial instrument contains an embedded derivative that would need to be separately recorded.



Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

This accounting policy relates primarily to the Group's derivative assets and liabilities, financial liabilities on put options over the non-controlling interests and contingent consideration liability.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates primarily to the Group's cash and cash equivalents, receivables and miscellaneous deposits reported under the "Other noncurrent assets" account.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, loans and receivables or HTM investments. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of AFS financial assets.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in profit or loss as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized in OCI under "Reserve for fluctuation on available-for-sale financial assets" account. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the investment is disposed of, the cumulative gains or losses previously recognized in OCI are recognized as realized gains or losses in profit or loss.

When the fair value of AFS equity instruments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less allowance for impairment losses.

This accounting policy pertains to the Group's investments in club shares and common equity shares.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in



profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits, advances from customers, advances from third party, statutory payables and taxes payable), loans and trust receipts payable and long-term debt.

Fair Value Measurement

The Group measures derivatives, AFS financial assets and the financial liabilities on put options at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

The fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at balance sheet date.

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 as explained above.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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.



Derecognition of Financial Instruments

Financial asset

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (that is, removed from the consolidated balance sheets) when:

- The right to receive cash flows from the asset have expired; or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement, and either:
 - a. The Group has transferred substantially all the risks and rewards of the asset; or
 - b. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred “loss event”), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables, the Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.



The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

AFS financial assets

For AFS financial investments, the Group assesses, at each balance sheet date, whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is evaluated against the original cost of the investments and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that investments previously recognized in profit or loss - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method for raw materials and supplies. For finished goods and work-in-process, cost includes direct materials, direct labor, and a proportion of manufacturing overhead costs based on normal operating capacity determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. In the event that NRV is lower than cost, the decline shall be recognized as an expense in profit or loss.

Noncurrent Assets Held for Sale

The Group classifies noncurrent asset as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through continuing use.

The following conditions must be met for an asset to be classified as held for sale:

- Management is committed to a plan to sell;
- The asset is available for immediate sale;
- An active programme to locate a buyer is initiated;
- The sale is highly probable within 12 months of classification as held for sale;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The Group measures noncurrent asset held for sale at the lower of its carrying amount and fair value less cost to sell.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. The initial cost of property, plant and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.



Construction in progress is stated at cost, less impairment loss, if any. This includes costs of construction and installation of equipment and machinery items, and any other costs directly attributable to bringing the asset to its intended use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Depreciation of property, plant and equipment commences once the property, plant and equipment are available for use and is calculated on a straight-line basis over the estimated useful lives (EUL) of the assets as follows:

	Years
Buildings	25 - 30
Building improvements	5
Machineries and facilities equipment	7
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5
Tools and instruments	2 - 5

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate. The EUL of property, plant and equipment are based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss when the asset is derecognized.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer used and no further depreciation is charged to profit or loss.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value



recognized in profit or loss. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

Each unit or group of units to which the goodwill is allocated should:

- Represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

When goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill allocated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- (a) The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- (b) Its intention to complete and ability to use or sell the intangible asset;



- (c) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (d) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (e) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, intangible assets are carried at cost, less accumulated amortization and any accumulated impairment losses. Amortization begins when development is complete and the asset is available for use. It is amortized over the period of expected benefit.

The EUL of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over their EUL and assessed for impairment whenever there is an indication that the intangible asset is impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss.

The EUL of intangible assets of finite useful life are as follows:

	Years
Product development cost	5
Customer relationships	5
Intellectual properties	5
Unpatented technology	5
Licenses	3

Intangible assets with indefinite useful lives and those not yet available for use are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses, at each balance sheet date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. 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.



The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally covered a period of five years.

For assets, excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, 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 and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Goodwill allocated to STI, STEL, the Parent Company and IMI CZ is tested for impairment annually as of September 30. Goodwill allocated to VIA is tested annually as of December 31. Goodwill is also tested for impairment when circumstances indicate that the carrying amount is impaired. Provisional goodwill allocated to a CGU is also tested for impairment even if the fair value exercise is not complete during the year.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

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 the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Equity

Capital stock

Capital stock is measured at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Preferred shares may be issued with various rights. In determining whether a preference share is financial liability or equity instrument, the issuer is required to assess the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preference share redeemable only at the holder's option is an equity instrument because the issuer does not have a present or future obligation to transfer financial assets to the shareholder.

Additional paid-in capital

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock. Direct costs incurred related to equity issuance, such as underwriting,



accounting and legal fees, printing costs and taxes are charged to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account. The financial liabilities for the put options over the non-controlling interests are recognized at the acquisition date with a debit to additional paid-in capital.

Subscriptions receivable

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings and dividends on capital stock of the Parent Company

Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by Parent Company's BOD.

Treasury stock

Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the "Capital stock" account is reduced by its par value and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" account to the extent of the specific or average additional paid-in capital when the shares were issued and to "Retained earnings" account for the remaining balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from sale of goods is recognized when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, title and risk of ownership have passed, the price to the buyer is fixed or determinable, and recoverability is reasonably assured.

Rendering of services

Revenue from sale of services is recognized when the related services to complete the required units have been rendered.

Interest income

Interest income is recognized as it accrues using the EIR method.

Dividends

Dividend income is recognized when the right to receive the payment is established.

Miscellaneous income

Miscellaneous income is recognized as the Group earns the right over it.

Cost of sales

This account includes cost of goods sold and cost of services. These expenses pertain to the direct expenses incurred by the Group in relation to the products and services offered. Cost of sales is recognized when the related goods are sold and when services are rendered.

Operating expenses

This account pertains to the general and administrative expenses. Operating expenses are recognized when incurred, except for rental expense, which is computed on a straight line-basis over the lease term.



Foreign Currency Transactions

The functional currencies of the Group's foreign operations are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD, which is the Parent Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of the Group's foreign subsidiaries are summarized in Note 2 to the consolidated financial statements. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Income Taxes

Current tax

Current tax assets and current tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date in the countries where the Group operates and generates taxable profit.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, when appropriate.

Deferred tax

Deferred tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as of the balance sheet date.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when 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 and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

For periods where an Income Tax Holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company

Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

Retirement and Other Employee Benefits

Defined benefit plans

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory retirement plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.



Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on net retirement liabilities is the change during the period in net retirement liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to net retirement liabilities. Net interest on retirement liabilities is recognized as expense or income in profit or loss.

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

Net retirement liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net retirement asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans

The Parent Company's subsidiaries in Singapore, China and Hong Kong, Czech Republic, Mexico, Germany and UK participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

Singapore

The subsidiaries incorporated in Singapore make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution scheme. Contributions to the CPF scheme are recognized as an expense in the period in which the related service is performed.

China

The subsidiaries incorporated and operating in China are required to provide certain staff retirement benefits to their employees under existing China regulations, a defined contribution scheme. Retirement contributions are provided at rates stipulated by China regulations and are contributed to a retirement fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

Hong Kong

The subsidiary in Hong Kong participates in the defined provident fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.



IMI CZ

IMI CZ, under its collective agreement, is committed to pay contributions to life and retirement insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX

In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus twenty days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

VIA

VIA only has defined contribution plans relating to statutory pension. Funds paid by the employees and employers are not saved or invested but are used to pay current pension obligations. Obligations for contributions to defined contribution plans are recognized as an expense when incurred.

STI

Contributions to defined contribution plans are recognized as an expense in the period in which the related service is provided. Prepaid contributions are recognized as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognized as a finance cost in profit or loss in the period in which it arises.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

Share-based Payment Transactions

Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes employee benefit expense over the holding period. The Group treats its ESOWN plan as option payable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

Operating Segments

The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, China, Europe, Mexico, Germany/UK, and USA/Japan/Singapore. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 29.



Leases

The determination of whether an arrangement is, or contains, a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating and finance lease commitments - Group as lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account, with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion, and "Noncurrent portion of obligation under finance lease" account for the noncurrent portion in the consolidated balance sheets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Interest expense and bank charges" account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the respective lease terms.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in 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 consolidated financial statements when an inflow of economic benefits is probable.

Events after the Balance Sheet Date

Post period events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Product development costs

Expenditures for the development of new products or production systems are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future economic benefits for the Group. The rules require stringent criteria to be met for these development



expenditures to be recognized as assets such as determining technical feasibility of completing the intangible asset. Management assessed that it is able to meet the identifiability and separability criteria provided in PAS 38, *Intangible Assets*, on the premise that the projects involved are in separate locations from other existing lines and that each project arises from a contractual right between the Group and each customer. Moreover, management is able demonstrate that the projects are in the advanced stage of development.

Functional currency

PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine each entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective January 1, 2017, IMI CZ changed its functional currency from CZK to EUR, while IMI BG changed its functional currency from BGN to EUR effective January 1, 2016. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

Operating lease commitments - Group as lessee

The Group has entered into contracts with various lease contracts for office spaces and land. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Further details are disclosed in Note 30.

Contingencies

The Group is currently involved in various legal proceedings. The estimates of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and are based upon analyses of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Further details are disclosed in Note 34.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of the financial liabilities on put options

The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. Management assessed that the options do not give the Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.



Management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 32.

Fair value of contingent consideration liability

The cost of acquisition of STI includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. Management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date. Further details on the valuation of the contingent consideration liability are disclosed in Note 32.

Impairment of receivables

The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on receivables has been incurred, based on the result of the individual impairment assessment. Factors considered are payment history and past due status.

Further details on receivables are disclosed in Note 6.

Estimating NRV of inventories

Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Further details on inventories are disclosed in Note 7.

Depreciation and amortization

The Group computes depreciation and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.



Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

Evaluation of impairment of nonfinancial assets

The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. Impairment for goodwill is assessed at least annually. The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property, plant and equipment, and intangible assets. For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows. Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 25.

Retirement and other employee benefits

The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates



of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 27.

Share-based payments

The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on ESOWN are disclosed in Note 28.

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	\$82,463	\$83,701
Cash in banks	67,581,023	75,816,054
Short-term investments	22,963,742	10,648,980
	\$90,627,228	\$86,548,735

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to \$0.17 million in 2017, \$0.29 million in 2016 and \$0.66 million in 2015.

6. Receivables

This account consists of:

	2017	2016
Trade	\$252,636,453	\$192,152,117
Nontrade	10,141,732	3,804,516
Receivable from insurance	1,076,287	1,860,624
Due from related parties (Note 31)	794,218	299,713
Receivable from employees	424,658	553,745
Others	52,274	32,164
	265,125,622	198,702,879
Less allowance for doubtful accounts	2,010,275	1,733,743
	\$263,115,347	\$196,969,136



Trade

Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Nontrade

Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms averaging 45 days from invoice date.

Receivable from Insurance

Insurance for damages to property, plant and equipment, inventories and business interruptions caused by fire in January 2016 amounting to \$1.20 million was claimed, \$0.41 million of which has been collected in 2016 and the remaining amount was fully collected by STJX in 2017 (see Notes 7 and 9).

Claims to damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu in 2009 amounting to \$1.07 million was fully provided with allowance for doubtful accounts.

Receivable from Officers and Employees

Receivable from officers and employees pertain to loans granted to the Group's officers and employees which are collectible through salary deduction.

Allowance for Doubtful Accounts

Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of \$2.01 million and \$1.73 million as of December 31, 2017 and 2016, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for doubtful accounts are as follows:

December 31, 2017					
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	Total
At beginning of year	\$595,553	\$62,574	\$4,357	\$1,071,259	\$1,733,743
Provisions	86,236	139,299	—	—	225,535
Accounts written-off	(10,670)	(17,930)	—	—	(28,600)
Foreign currency exchange difference	79,597	(5,028)	—	5,028	79,597
At end of year	\$750,716	\$178,915	\$4,357	\$1,076,287	\$2,010,275

December 31, 2016					
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	Total
At beginning of year	\$543,800	\$67,762	\$17,438	\$1,066,414	\$1,695,414
Provisions (reversals)	217,768	—	(13,161)	—	204,607
Accounts written-off	(9,737)	—	—	—	(9,737)
Foreign currency exchange difference	(156,278)	(5,188)	80	4,845	(156,541)
At end of year	\$595,553	\$62,574	\$4,357	\$1,071,259	\$1,733,743

Provisions during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 22).



7. Inventories

This account consists of:

	2017	2016
Raw materials and supplies	\$139,623,455	\$75,849,560
Work-in-process	29,087,565	17,195,051
Finished goods	37,112,621	19,654,056
	205,823,641	112,698,667
Less allowance for:		
Inventory obsolescence	6,129,568	6,331,871
Decline in value of inventories	79,266	234,267
	6,208,834	6,566,138
	\$199,614,807	\$106,132,529

The cost of the inventories carried at NRV amounted to \$17.23 million and \$24.06 million as of December 31, 2017 and 2016, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to \$756.16 million in 2017, \$571.52 million in 2016 and \$546.90 million in 2015 (see Note 20).

In 2016, STJX claimed and collected in full the insurance amounting to \$0.41 million for the damaged inventories caused by a fire in January 2016. The net book value of the affected stocks amounted to \$0.26 million.

Movements in the allowance for inventory obsolescence are as follows:

	2017	2016
At beginning of year	\$6,331,871	\$9,351,194
Reversals (Note 22)	(202,303)	(2,660,809)
Write-off	-	(358,514)
At end of year	\$6,129,568	\$6,331,871

Movements in the allowance for decline in value of inventories value are as follows:

	2017	2016
At beginning of year	\$234,267	\$184,267
Provisions (reversals) (Note 22)	(155,001)	50,000
At end of year	\$79,266	\$234,267

The Group recognized gains from sale of materials and scrap amounting to \$1.24 million in 2017, \$0.15 million in 2016 and \$0.24 million in 2015. Gains from sale of materials and scrap are included under "Miscellaneous income (loss) - net" account in the consolidated statement of income (see Note 24).

8. Other Current Assets

This account consists of:

	2017	2016
Input taxes	\$8,504,591	\$3,115,121
Advances to suppliers	7,633,680	8,838,927
Prepayments	6,611,082	2,372,073
Tax credits	3,687,290	2,228,363
(Forward)		



	2017	2016
Noncurrent assets held for sale (Note 9)	\$362,124	\$362,124
Derivative assets (Notes 32 and 33)	–	67,062
Others	255,864	340,745
	\$27,054,631	\$17,324,415

Advances to Suppliers

Advances to suppliers represent advance payments made to suppliers for direct materials.

Input Taxes

This account includes input tax expected to be applied against output tax within 12 months from the balance sheet date. Input tax is recognized when an entity in the Group purchases goods or services from a supplier or vendor.

Prepayments

Prepayments include prepayments for rent, life and fire insurance, product liability and recall insurance, which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

Tax Credits

Tax credits includes tax incentive to be applied to future taxable profits of IMI MX and IMI BG and amounts withheld from income tax payments of the Parent Company and PSi.

Noncurrent Assets Held for Sale

Noncurrent assets held for sale relates to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within 2018.

9. Property, Plant and Equipment

Movements in this account are as follows:

	2017						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	\$75,240,305	\$131,991,993	\$19,926,463	\$1,700,583	\$7,716,455	\$8,856,966	\$245,432,765
Additions	8,731,307	34,613,411	3,880,798	535,300	1,101,552	13,010,576	61,872,944
Acquisition through business combination (Note 2)	1,232,768	4,736,580	14,362	–	–	–	5,983,710
Disposals/retirement	(7,752,183)	(11,200,522)	(994,787)	(319,502)	(644,669)	(17,274)	(20,928,937)
Transfers	5,647,511	8,816,444	1,175,405	29,457	484,343	(16,153,160)	–
Foreign currency exchange difference	1,400,531	6,671,178	357,230	106,028	16,107	276,125	8,827,199
At end of year	84,500,239	175,629,084	24,359,471	2,051,866	8,673,788	5,973,233	301,187,681
Accumulated depreciation							
At beginning of year	36,199,147	70,587,535	14,770,431	590,693	3,332,593	–	125,480,399
Depreciation	3,902,685	17,398,541	2,104,433	476,491	359,671	–	24,241,821
Depreciation capitalized as development cost	76,784	1,069,895	1,666	–	–	–	1,148,345
Disposals/retirement	(5,463,739)	(6,525,326)	(6,335,704)	(291,827)	(419,690)	–	(19,036,286)
Transfers	(14,560)	12,543	(3,325)	5,342	–	–	–
Foreign currency exchange difference	283,676	2,397,847	260,756	75,833	7,022	–	3,025,134
At end of year	34,983,993	84,941,035	10,798,257	856,532	3,279,596	–	134,859,413
Accumulated impairment losses							
At beginning of year	815,150	1,732,212	–	–	–	–	2,547,362
Reversal of impairment	(815,150)	–	–	–	–	–	(815,150)
At end of year	–	1,732,212	–	–	–	–	1,732,212
Net book value	\$49,516,246	\$88,955,837	\$13,561,214	\$1,195,334	\$5,394,192	\$5,973,233	\$164,596,056



	2016						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	\$72,113,546	\$108,898,005	\$17,900,646	\$1,468,326	\$5,489,876	\$9,509,131	\$215,379,530
Additions	7,975,777	26,216,435	1,901,351	684,538	2,234,803	9,331,314	48,344,218
Acquisition through business combination (Note 2)	137,613	1,948,746	166,896	7,255	98,158	790,641	3,149,309
Disposals	(365,758)	(9,971,185)	(480,689)	(400,842)	(367,119)	—	(11,585,593)
Asset held for sale (Note 8)	(6,491,739)	—	—	—	—	—	(6,491,739)
Transfers	2,409,552	7,270,342	573,303	3,885	260,898	(10,517,980)	—
Foreign currency exchange difference	(538,686)	(2,370,350)	(135,044)	(62,579)	(161)	(256,140)	(3,362,960)
At end of year	75,240,305	131,991,993	19,926,463	1,700,583	7,716,455	8,856,966	245,432,765
Accumulated depreciation							
At beginning of year	38,709,500	64,001,044	13,632,345	538,637	2,848,671	—	119,730,197
Depreciation	3,749,666	16,389,876	1,648,253	478,473	205,978	—	22,472,246
Depreciation capitalized as development cost	235,940	1,578,553	46,738	5,493	29,001	—	1,895,725
Disposals	(278,258)	(9,447,148)	(469,979)	(379,189)	(2,301)	—	(10,576,875)
Asset held for sale (Note 8)	(6,129,615)	—	—	—	—	—	(6,129,615)
Transfers	(884)	(261,715)	10,888	—	251,711	—	—
Foreign currency exchange difference	(87,202)	(1,673,075)	(97,814)	(52,721)	(467)	—	(1,911,279)
At end of year	36,199,147	70,587,535	14,770,431	590,693	3,332,593	—	125,480,399
Accumulated impairment losses							
At beginning and end of year	815,150	1,732,212	—	—	—	—	2,547,362
Net book value	\$38,226,008	\$59,672,246	\$5,156,032	\$1,109,890	\$4,383,862	\$8,856,966	\$117,405,004

Property, plant and equipment acquired through business combination amounted to \$5.98 million (STI) and \$3.15 million (VIA) in 2017 and 2016, respectively.

The Group capitalized depreciation related to development phase for certain projects amounting to \$1.15 million in 2017 and \$1.90 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

In 2017, the Group recorded a reversal of impairment provision on buildings and improvements amounting to \$0.82 million. The building is currently being refurbished and is converted into a production line. The reversal is included under “Miscellaneous income (loss) - net” account in the consolidated statements of income (see Note 24).

Construction in progress pertains to the construction and development of manufacturing production lines of the Group. During the years ended December 31, 2017 and 2016, construction in progress transferred in to property, plant and equipment amounted to \$16.45 million and \$10.52 million, respectively.

In 2016, STJX claimed an insurance amounting to \$0.71 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to \$0.44 million. The claim was collected in 2017.

The Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to \$0.05 million in 2017, loss of \$0.14 million in 2016 and gain \$0.17 million in 2015. The 2016 loss is net of the proceeds from the disposal of scrap equipment related to the fire amounting to \$0.09 million.

As of December 31, 2017 and 2016, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to \$189.31million and \$212.82 million, respectively.

Depreciation expense included in “Cost of goods sold and services” and “Operating expenses” accounts follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	\$21,247,569	\$20,036,576	\$18,570,445
Operating expenses (Note 21)	2,994,252	2,435,670	2,446,374
	\$24,241,821	\$22,472,246	\$21,016,819



10. Goodwill

As of December 31, 2017 and 2016, goodwill acquired through business combinations had been allocated to the following CGUs:

	2017	2016
STI	\$55,954,732	\$—
STEL	45,128,024	45,128,024
VIA	44,539,967	44,539,967
Parent Company	1,097,776	1,097,776
IMI CZ	650,413	650,413
	\$147,370,912	\$91,416,180

STI, STEL, VIA, and IMI CZ

The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2017	2016
STI	8.70%	—
STEL	14.21%	11.89%
VIA	13.40%	11.20%
IMI CZ	8.30%	9.56%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global EMS industry.

Key assumptions used in the value-in-use calculations

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STI, STEL, VIA and IMI CZ in 2017, 2016 and 2015.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of STI, STEL, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

Parent Company

The goodwill of the Parent Company pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to the Parent Company as testing and development department. IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA's expertise in product design and development particularly on the flip chip technology is being used across the Group in providing competitive solutions to customers. The recoverable amount was based on the market price of the Parent Company's shares at valuation date



less estimated costs to sell. The fair value of the Parent Company's shares represents the value of the Group.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2017, 2016 and 2015.

11. Intangible Assets

Movements in this account are as follows:

	December 31, 2017					Total
	Customer Relationships	Unpatented Technology	Licenses	Intellectual Properties	Product Development Costs	
Cost						
At beginning of year, as reported	\$19,666,617	\$100,000	\$9,009,676	\$464,234	\$5,899,990	\$35,140,517
Effect of finalization of business combination (Note 2)	-	-	-	7,847,988	-	7,847,988
At beginning of year, as restated	19,666,617	100,000	9,009,676	8,312,222	5,899,990	42,988,505
Additions	-	-	3,257,626	123,552	-	3,381,178
Capitalized development costs	-	-	-	-	5,608,052	5,608,052
Acquisition through business combination	-	-	-	369,725	-	369,725
Foreign currency exchange difference	-	-	386,318	67,309	-	453,627
At end of year	19,666,617	100,000	12,653,620	8,872,808	11,508,042	52,801,087
(Forward)						
Accumulated amortization						
At beginning of year	19,666,617	100,000	4,839,885	64,937	-	24,671,439
Amortization	-	-	1,414,525	2,113,539	859,886	4,387,950
Foreign currency exchange difference	-	-	315,295	3,132	-	318,427
At end of year	19,666,617	100,000	6,569,705	2,181,608	859,886	29,377,816
Accumulated impairment loss	-	-	-	-	524,705	524,705
Net book value	\$-	\$-	\$6,083,915	\$6,691,200	\$10,123,451	\$22,898,566

December 31, 2016 (As Restated - Note 2)						
	Customer Relationships	Unpatented Technology	Licenses	Intellectual Properties	Product Development Costs	Total
Cost						
At beginning of year	\$19,666,617	\$100,000	\$5,384,182	\$-	\$-	\$25,150,799
Additions	-	-	3,886,107	-	-	3,886,107
Capitalized development costs	-	-	-	-	5,899,990	5,899,990
Acquisition through business combination (Note 2)	-	-	-	8,341,357	-	8,341,357
Foreign currency exchange difference	-	-	(260,613)	(29,135)	-	(289,748)
At end of year	19,666,617	100,000	9,009,676	8,312,222	5,899,990	42,988,505
Accumulated amortization						
At beginning of year	18,877,177	100,000	3,775,161	-	-	22,752,338
Amortization	789,440	-	1,132,321	67,787	-	1,989,548
Foreign currency exchange difference	-	-	(67,597)	(2,850)	-	(70,447)
At end of year	19,666,617	100,000	4,839,885	64,937	-	24,671,439
Net book value	\$-	\$-	\$4,169,791	\$8,247,285	\$5,899,990	\$18,317,066



Customer Relationships

Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers, which lay out the principal terms upon which the parties agree to undertake business.

Customer relationships of STEL Group and IMI BG aggregating to \$19.67 million were fully amortized as of December 31, 2017 and 2016.

Unpatented Technology

Unpatented technology of STEL Group pertains to products which are technologically feasible. These technologies are also unique, difficult to design around, and meet the separability criteria.

The unpatented technology amounting to \$0.01 million was fully amortized as of December 31, 2017 and 2016.

Licenses

This includes acquisitions of computer software, applications and modules.

Intellectual Properties

VIA's patents and trademarks pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods. The Group finalized the purchase price allocation for the acquisition of VIA and determined the fair value of the intellectual properties amounting to \$8.34 million (see Note 2).

STI has manufacturing intellectual property rights and license to manufacture for one of its customers.

Product Development Costs

This includes capitalized costs arising from the development phase of certain projects which are still undergoing qualification.

Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The projects to which the development costs pertain to represent the CGU of the intangible assets. The recoverable amounts of these CGUs have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pre-tax discount rates applied to cash flow projections range from 13.10% - 28.50%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

Significant delay in the mass production of one project resulted to impairment of the related capitalized development cost. Impairment loss amounting to \$0.52 million was recognized under "Miscellaneous income (loss) - net" account in 2017 (see Note 24).

Research expenditure recognized as expense amounted to \$3.56 million, \$0.26 million and \$0.11 million in 2017, 2016 and 2015, respectively.

Amortization expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	\$952,288	\$34,951	\$15,604
Operating expenses (Note 21)	3,435,662	1,954,597	2,216,247
	\$4,387,950	\$1,989,548	\$2,231,851



12. Available-for-Sale Financial Assets

This account consists of:

	2017	2016
Investment securities - unquoted	\$1,753,589	\$1,753,589
Club shares - quoted	831,364	740,949
	2,584,953	2,494,538
Less allowance for impairment loss on AFS financial assets	1,753,589	1,753,589
	\$831,364	\$740,949

As of December 31, 2017 and 2016, the balance of investment securities pertains to Class A common stock of a customer. This investment was provided with full allowance in prior years due to the investee company's financial difficulties.

The table below shows reconciliation of fair value measurements of AFS financial assets:

	2017	2016
Balance at beginning of year	\$740,949	\$583,510
Change in fair value of quoted AFS investments	90,415	157,439
Balance at end of year	\$831,364	\$740,949

13. Other Noncurrent Assets

This account consists of:

	2017	2016
Miscellaneous deposits	\$1,647,864	\$2,596,176
Others	143,051	125,882
	\$1,790,915	\$2,722,058

Miscellaneous deposits includes utilities and rent deposits. This includes utility deposits to AC Energy Holdings Inc. (ACEHI) amounting to \$0.15 million and \$0.48 million as of December 31, 2017 and 2016, respectively (see Note 31).

14. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Trade payables	\$185,143,187	\$136,114,721
Accrued expenses	25,770,467	16,676,506
Accrued compensation and benefits	24,233,636	21,685,525
Advances from a third party	20,772,333	6,538,462
Nontrade payables	12,785,361	8,050,234
Advances from customers	7,710,749	2,567,552
Taxes payable	3,660,433	1,094,518
Customers' deposits	1,352,353	896,712
Accrued interest payable	1,075,657	769,072

(Forward)



	2017	2016
Employee-related contributions	\$632,846	\$455,272
Current portion of obligation under finance lease (Note 30)	245,518	—
Derivative liabilities (Note 32)	30,144	10,567
Due to related parties (Note 31)	9,584	590,369
Others	856,442	225,795
	\$284,278,710	\$195,675,305

Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

Accrued Expenses

Accrued expenses consist mainly of accruals for taxes, employee pay-out related to SZSTE's relocation of manufacturing facilities, supplies, professional fees, utilities, insurance, interest, and freight and brokerage.

Accrued Compensation and Benefits

Accrued compensation and benefits include accrued salaries, leave credits and other employee benefits.

Advances from a Third Party

The amount pertains to the deposit received related to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the plan to relocate the SZSTE manufacturing facility in Liantang, Luohu to Pingshan, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed in 2018. The advances were offset by a provision for refund related to the actual spin-off compensation paid amounting to \$5.3 million.

Nontrade Payables

This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other nontrade related payables. These payables are normally settled on 30 to 60-day terms. This also includes advances from directors of STI which are payable on demand.

Advances from Customers

Advances from customers include financial liabilities pertaining to commercial agreements with certain customers of VIA with interest ranging from 3.55% to 5.00%, PSi's advances from local customers (see Note 17), and advance payments made by customers for goods and services of the Parent Company and STEL.

Taxes Payable

Taxes payable pertain to taxes withheld such as fringe benefits tax and withholding taxes on purchased goods and services. Withholding taxes payable are expected to be settled within the next financial year.

Customers' Deposits

The amount pertains to advance payments made by customers as manufacturing bond.

Employee-related Contributions

This account consists mainly of remittances related to government agencies such as social security and insurance, housing fund and health insurance.

Others

This account consists of unreleased checks and consignment payables of the Parent Company for the materials received from its customers.



15. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	\$93,000,000	\$25,000,000
STEL	24,000,000	8,000,000
VIA	12,461,977	7,903,449
STI	3,736,085	–
IMI CZ	1,658,579	1,092,528
PSi	200,979	9,449,192
	\$135,057,620	\$51,445,169

Parent Company

As of December 31, 2017 and 2016, the Parent Company has unsecured short-term loans aggregating to \$93.00 million and \$25.00 million, respectively, with maturities ranging from 30 to 90 days, and fixed annual interest rates ranging from 1.82% to 2.34% in 2017, from 1.23% to 1.24% in 2016 and from 1.03% to 1.50% in 2015.

The Parent Company incurred interest expense on its short-term loans amounting to \$1.50 million in 2017, \$0.65 million in 2016 and \$0.46 million in 2015 (see Note 23).

STEL

The loans of STEL are from existing revolving credit facilities with Singapore-based banks and bear annual interest rate from 2.88% to 4.31% in 2017, 2.24% in 2016 and 1.73% in 2015 and have maturities of 30 to 60 days from the date of issue.

STEL incurred interest expense on short-term loans amounting to \$0.34 million in 2017, \$0.16 million in 2016 and \$0.16 million in 2015 (see Note 23).

VIA

The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB aggregating \$10.07 million in 2017 and \$5.81 million in 2016 with terms ranging from 70 to 150 days and annual interest rate from 3.16% to 3.77% and loan from a German-based bank amounting to €2.0 million (\$2.39 million) in 2017 and €2.0 million (\$2.09 million) in 2016 with term of 90 and bears interest rate of 1.95% per annum.

VIA incurred interest expense on short-term loans amounting to \$0.84 million in 2017 and \$0.05 million in 2016 (see Note 23).

STI

STI has unsecured short-term loans from a local bank amounting to \$3.20 million and UK-based bank of £0.40 million (\$0.54 million) as of December 31, 2017, with maturities ranging from 90 to 240 days and annual interest rates ranging from 3.9% to 4.7%.

STI incurred interest expense on short-term loans amounting to \$0.08 million in 2017 (see Note 23).

IMI CZ

The loans of IMI CZ are clean loans from existing revolving credit facilities with Czech based bank which bear annual interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on short-term loans amounting to \$0.05 million in 2017 and \$0.003 million in 2016 (see Note 23).



PSi

PSi has short-term loans from a local bank amounting to \$9.20 million subject to interest rate of 3.17% as of December 31, 2016, which was settled in the first half of 2017. PSi also has trust receipts payable amounting to \$0.20 million and \$0.25 million as of December 31, 2017 and 2016, respectively.

PSi incurred interest expense on short-term loans and trust receipts payable amounting to \$0.04 million in 2017, \$0.28 million in 2016 and \$0.24 million in 2015 (see Note 23).

16. Long-Term Debt

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	\$154,500,000	\$120,222,000
Cooperatief	5,095,518	6,586,800
IMI CZ	5,066,432	1,818,198
IMI BG	239,320	417,760
VIA	195,465	284,338
	165,096,735	129,329,096
Less current portion:		
Parent Company	–	5,222,000
Cooperatief	5,095,518	2,108,200
IMI CZ	1,403,223	528,478
IMI BG	239,320	208,880
VIA	134,618	117,495
	6,872,679	8,185,053
Noncurrent portion	\$158,224,056	\$121,144,043

Parent Company

In October and November 2017, the Parent Company obtained two 5-year term loan aggregating \$30.00 million from a Singapore-based bank. The loan is unsecured and is subject to annual interest rates ranging from 2.85% to 2.86%.

On October 10, 2016, the Parent Company drew a \$40.00 million 5-year term loan subject to a fixed interest rate of 2.70% and drew additional loan of \$10.00 million in 2017 subject to an annual interest rate of 2.96%. Subsequently, 1% of the loan or equivalent of \$0.50 million was paid in 2017.

On October 6, 2016, the Parent Company obtained a \$40.00 million 3-year term loan from a Singapore-based bank subject to a fixed annual interest rate of 2.15%.

On September 29, 2016, the Parent Company obtained a \$15.00 million 3-year term loan from a local bank subject to a fixed annual interest rate of 2.99%.

On August 12, 2015, the Parent Company obtained a \$20.00 million 5-year term loan from a local bank payable at the end of the loan term subject to a fixed interest rate per annum of 2.8%. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, the Parent Company obtained a €5.00 million (\$5.22 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of 1.28%. The loan was paid in February 2017.

The Parent Company incurred interest expense on its long-term loans amounting to \$2.64 million in 2017, \$1.83 million in 2016 and \$0.98 million in 2015 (see Note 23).



Loan covenants related to the Parent Company's loans are as follows:

- The ratio of debt to EBITDA shall not exceed 3:1 at all times, with reference to the borrower's consolidated financial statements;
- Maintenance of debt service coverage ratio of at least 1.5:1;
- Maintenance at all times of a current ratio of at least 1:1; and
- Maintenance of a debt-to-equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2017 and 2016, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief

The purchase consideration for the acquisition of IMI EU/MX Subsidiaries in 2011 includes the deferred payment aggregating to €14.25 million (\$20.40 million) relating to the acquisition of EPIQ NV's shares and purchased receivables of EPIQ NV from IMI EU/MX Subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

Cooperatief had already paid an aggregate amount of €10.00 million from 2013 to 2017 with an annual payment of €2.00 million every July of each year. The balance of €4.25 million (\$5.10 million) will be due on July 29, 2018.

Cooperatief incurred interest expense on its long-term debt amounting to \$0.19 million in 2017, \$0.26 million in 2016 and \$0.32 million in 2015 (see Note 23).

IMI CZ

IMI CZ has unsecured term loan facility from Czech-based bank aggregating to €4.23 million (\$5.07million). The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2017 amounted to €4.23 million (\$5.07 million).

IMI CZ incurred interest expense on its long-term debt amounting to \$0.05 million in 2017, \$0.03 million in 2016, and \$0.02 million in 2015 (see Note 23).

IMI BG

IMI BG has a long-term debt from European-based bank amounting to \$0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of \$1.35 million.

IMI BG incurred interest expense amounting to \$0.01 million in 2017 and \$0.02 million in 2016 and \$0.02 million in 2015 (see Note 23).

VIA

VIA has a long-term debt from Germany-based bank amounting to €0.16 million (\$0.20 million). The loan is unsecured and bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to \$16,363 in 2017 and \$3,803 in 2016 (see Note 23).



17. Noncurrent Advances from Customers

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to \$3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agreed that upon termination of the SSA, the full cash advances amounting to \$3.00 million will be applied to pre-pay and cover any and all of the fees payable, under Annex B of the SSA, for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, if any, the residual cash advances, less any amount applied to pay the fees as detailed in the SSA.

On July 14, 2017, the local customer formally terminated the SSA with PSi effective December 31, 2017 due to the early termination of PSi's lease in FTI Taguig. In line with the termination, the advances from the local customer are due in the first quarter of 2018.

As of December 31, 2017 and 2016, the current and noncurrent portion of Group's advances from the local customers follows:

	2017	2016
Total outstanding advances from local customers	\$1,147,592	\$1,788,232
Less current portion (Note 14)	1,147,592	650,367
Noncurrent portion	\$-	\$1,137,865

18. Other Financial Liabilities

The account consists of financial liabilities arising from the acquisition of VIA and STI as follows:

	2017	2016
Put options over non-controlling interests		
VIA	\$11,676,243	\$11,334,282
STI (Note 2)	10,236,016	-
Contingent consideration (Note 2)	405,601	-
Current	\$22,317,860	\$11,334,282
Noncurrent portion of contingent consideration (Note 2)	\$24,569,608	\$-

The put options of VIA pertain to the right of the non-controlling shareholder to sell to IMI a portion of its shareholding that is approximately 5% of the issued and outstanding nominal share capital of VIA within the first and third anniversary of the agreement (5% put option) and all remaining shares held by the non-controlling shareholder upon the happening of certain trigger events (exit put options).

The noncurrent portion of the contingent consideration is included under "Other noncurrent liabilities" account.



19. Equity

Authorized Capital Stock

On February 15, 2017, the Parent Company's BOD approved the proposed decrease of authorized capital stock of the Parent Company to reflect the retirement of the redeemed ₱1.3 billion redeemable preferred shares and the corresponding amendment to the Articles of Incorporation. The SEC issued the certificate of approval of decrease in capital stock on December 20, 2017.

Capital Stock

This account consists of:

	2017		2016		2015	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	2,250,000,000		2,250,000,000		2,250,000,000	
Preferred	200,000,000		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	1,793,518,641	\$34,935,709	1,793,429,765	\$34,933,728	1,790,416,179	\$34,876,616
Issuances from ESOWN	36,373,583	773,970	88,876	1,981	3,013,586	57,112
At end of year [*]	1,829,892,224	\$35,709,679	1,793,518,641	\$34,935,709	1,793,429,765	\$34,933,728
Issued - Preferred						
At beginning of year	-	\$-	-	\$-	1,300,000,000	\$26,601,155
Redemption	-	-	-	-	(1,300,000,000)	(26,601,155)
At end of year	-	\$-	-	\$-	-	\$-

^{*} Out of the total issued shares, 15,892,224 shares as of December 31, 2017, and 15,892,124 in 2016 and 2015 pertain to treasury shares.

On November 12, 2017, the Parent Company's BOD through the Executive Committee passed a resolution approving the rights offering of common shares to all eligible shareholders of IMI ("Rights Issue"). The Parent Company is conducting the Rights Issue in order to support the growth and strategic initiatives of the Group. This includes business expansions and strategic investments. The Rights Issue will ensure the financial flexibility to consider these opportunities if and when they arise (see Note 36).

On October 11, 2017, the PSE in its regular meeting approved the application of the Parent Company to list an additional 200,000,000 common shares with a par value of ₱1.00.

On June 25, 2015, the BOD of the Parent Company approved the redemption of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares, which were redeemed at a price of ₱1.00 per share, were paid on August 24, 2015 to the stockholders of record as of July 24, 2015, including all accumulated unpaid cash dividends.

As of December 31, 2017, 2016 and 2015, there were 342, 338 and 367 registered common stockholders, respectively.

Subscribed Capital Stock

Details of this account follow:

	2017		2016		2015	
	Shares	Amount	Shares	Amount	Shares	Amount
At beginning of year	84,936,229	\$1,857,440	87,200,345	\$1,907,584	82,375,866	\$1,797,638
Subscriptions during the year - ESOWN	-	-	-	-	10,393,394	222,366
Issuances during the year - ESOWN	(36,373,583)	(773,970)	(88,876)	(1,981)	(3,013,586)	(57,112)
Forfeitures during the year - ESOWN	(1,158,757)	(25,192)	(2,175,240)	(48,163)	(2,555,329)	(55,308)
At end of year	47,403,889	\$1,058,278	84,936,229	\$1,857,440	87,200,345	\$1,907,584



Subscriptions Receivable

Details of this account are as follows:

	2017	2016	2015
At beginning of year	\$12,334,692	\$13,131,734	\$12,906,784
Subscriptions during the year	–	–	1,136,291
Forfeitures during the year	(217,470)	(334,665)	(450,707)
Collections during the year	(6,765,378)	(462,377)	(460,634)
At end of year (Note 28)	\$5,351,844	\$12,334,692	\$13,131,734

Additional Paid-in Capital

The financial liabilities arising from the written put options over the non-controlling interest of VIA and STI were recognized with a corresponding debit to the “Additional paid-in capital” account.

The effects of the initial recognition of financial liabilities arising from put options on business combinations are \$12.88 million in 2017 for STI and \$12.06 million in 2016 for VIA.

The grant of equity-settled awards to the Group’s employees was recognized as increase in the “Additional paid-in capital” account.

Dividends

2017

On April 4, 2017, the BOD of the Parent Company approved the declaration of cash dividend of \$0.004529 or ₱0.22739 per share to all outstanding common shares aggregating to \$8.43 million as of record date of April 20, 2017 payable on May 4, 2017.

2016

On February 06, 2016, the BOD of the Parent Company approved the declaration of cash dividend of \$0.0046 or ₱0.2204 per share to all outstanding common shares as of record date of February 23, 2016 payable on March 10, 2016.

2015

On February 17, 2015, the BOD of the Parent Company approved the declaration of cash dividend of \$0.0042 or ₱0.1868 per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

Retained Earnings

On February 17, 2015, the BOD of the Parent Company approved the reclassification of the remaining balance of the appropriated retained earnings to unappropriated retained earnings amounting to \$20.66 million.

The foreign exchange translation difference between the redemption date and the original issuance of preferred shares amounting to \$1.83 million was charged against “Retained earnings” account in 2015.

Accumulated net earnings of the subsidiaries amounting to \$170.50 million and \$143.76 million as of December 31, 2017 and 2016, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

The retained earnings are restricted to dividend declaration to the extent of the cost of treasury shares amounting to \$1.01 million.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company’s retained earnings available for dividend declaration as of December 31, 2017 amounted to \$15.00 million.



20. Cost of Goods Sold and Services

This account consists of:

	2017	2016	2015
Direct, indirect and other material-related costs (Note 7)	\$756,164,017	\$571,521,298	\$546,897,934
Direct labor, salaries, wages and employee benefits (Note 27)	137,867,620	116,183,955	121,291,155
Depreciation and amortization (Notes 9 and 11)	22,199,857	20,071,527	18,586,049
Facilities costs and others (Note 22)	44,758,049	33,880,263	33,557,495
	\$960,989,543	\$741,657,043	\$720,332,633

21. Operating Expenses

This account consists of:

	2017	2016	2015
Salaries, wages and employee benefits (Note 27)	\$47,800,516	\$31,222,323	\$31,366,967
Depreciation and amortization (Notes 9 and 11)	6,429,914	4,390,267	4,662,621
Facilities costs and others (Note 22)	34,930,245	22,753,852	20,068,937
	\$89,160,675	\$58,366,442	\$56,098,525

Operating expenses include plant relocations costs representing expenses incurred on the transfer of China operations from Liantang, Luohu to Pingshan. This is in line with the urban redevelopment projects of the Shenzhen City government.

The relocation costs consist of net employee relocation incentive amounting to \$6.44 million (\$11.74 million less \$5.30 million provision for refund related to the actual spin-off compensation paid), included under "Salaries, wages and employee benefits", and incidental expenses such as rental, machine transfer, overtime during transition, dormitory expense, security and janitorial, transportation and system transfer aggregating to \$1.60 million included under "Facilities costs and others".

22. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2017	2016	2015	2017	2016	2015
Utilities	\$18,242,235	\$15,750,396	\$15,786,733	\$1,316,836	\$1,468,908	\$1,217,805
Outsourced activities	10,694,698	7,868,740	7,359,668	12,733,622	9,225,760	6,799,414
Repairs and maintenance	8,580,727	6,722,042	6,874,986	677,734	702,432	502,700
Travel	2,335,214	968,879	541,422	3,514,058	2,862,709	1,550,962
Government-related	1,190,448	693,687	981,847	4,370,955	3,218,639	3,098,023
Technology-related	1,008,761	56,817	71,019	5,735,110	1,593,971	774,398
Insurance	959,715	731,918	710,192	1,221,086	1,248,871	1,193,732
Promotional materials, representation and entertainment	639,577	152,529	154,098	776,113	1,153,585	782,715

(Forward)



	Cost of Goods Sold and Services			Operating Expenses		
	2017	2016	2015	2017	2016	2015
Staff house	\$470,564	\$487,016	\$587,741	\$472,922	\$395,817	\$222,900
Postal and communication	387,258	314,889	319,625	1,082,683	932,780	708,817
Sales commission	-	-	-	1,444,950	1,251,399	362,708
Membership fees	12,690	16,041	2,289	413,152	160,137	134,131
Provision (reversal of provision) for doubtful accounts (Note 6)	-	-	-	255,535	204,607	438,344
Provision (reversal of provision) for inventory obsolescence (Note 7)	-	-	-	(202,303)	(2,660,809)	1,591,170
Provision for allowance for decline in value of inventories (Note 7)	-	-	-	(155,001)	50,000	100,000
Others	236,162	117,309	167,875	1,302,793	945,046	591,118
	\$44,758,049	\$33,880,263	\$33,557,495	\$34,960,245	\$22,753,852	\$20,068,937

Others include amortization expense of deferred licensing fee, additional licensing fee, donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses.

23. Interest Expense and Bank Charges

This account consists of:

	2017	2016	2015
Interest expense on loans (Notes 15 and 16)	\$5,707,530	\$3,296,499	\$2,207,309
Bank charges	1,177,622	586,721	507,834
Interest on finance lease	14,508	-	-
Others	1,147	1,234	1,242
	\$6,900,807	\$3,884,454	\$2,716,385

Others include interest on employee housing and car loans in 2017, 2016, and 2015.

24. Miscellaneous Income (Loss) - Net

This account consists of:

	2017	2016	2015
Non-recurring engineering (NRE) income	\$1,318,671	\$454,122	\$472,395
Sale of materials and scrap	1,242,931	149,980	238,950
Financial subsidies	907,435	-	-
Reversal of impairment on property, plant and equipment (Note 9)	815,150	-	-
Impairment loss on product development cost (Note 11)	(524,705)	-	-
Loss (gain) on sale and retirement of property, plant and equipment	48,116	(143,034)	167,187
Write-offs and other charges	-	(2,494,698)	-
Gain on insurance claims	-	360,895	-
Other income (expense)	821,887	(378,629)	341,445
	\$4,629,485	(\$2,051,364)	\$1,219,977



NRE income pertains to services provided to customers under new product introduction which includes test services, sample runs or prototypes, and jigs and fixtures.

Financial subsidies pertain to business technology grants provided by the government.

25. Income Tax

Current Tax

Parent Company

The Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2017, there are two remaining project activities with ITH. Under its PEZA registrations, the Parent Company's projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH, the Parent Company will be subject to a 5% tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916, otherwise known as the "Special Economic Zone Act of 1995", in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

IMICD, SZSTE and STJX

In accordance with the "Income Tax Law of the China for Enterprises with Foreign Investment and Foreign Enterprises," the subsidiaries in the China are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

IMICD is subject to taxation at the statutory rate of 15% on its taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

SZSTE and STJX are subject to taxation at the statutory tax rate of 25% on their taxable income as reported in their respective financial statements prepared in accordance with the accounting regulations in the China.

STHK and Monarch

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profit for the year.

Cooperatief

Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 20% on the first €200,000 and 25% on the taxable amount exceeding €200,000, taking into account any losses carried forward from previous financial years (if applicable), tax-exempt items and nondeductible expenses, and using tax facilities.

IMI BG

Income taxes are calculated in accordance with Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

IMI CZ

Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations, which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.



IMI MX

IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate 2015 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France

Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable is 33% based on net income.

VIA

VIA is subject to German corporate and trade taxes. Statutory corporate income tax rate of 15% plus surcharge of 5.5% thereon is applied to earnings. The municipal tax rate is approximately 11.55% of taxable income, thus, the total tax rate of 27.375%. The applicable tax rate for VIA LLC and VIA Suzhou is at 35% and 25%, respectively.

STI

The standard rate of corporation tax in the UK is 20%. STI Philippines is governed by the rules of R.A. No. 7916, which prescribes a final tax rate of 5% on gross income net of certain deductions specifically provided for by the law.

PSi

As a PEZA-registered entity, PSi is subject to a 5% tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi. The 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As at December 31, 2017, PSi has no PEZA-registered activities with ITH entitlement.

Deferred Tax

Recognized deferred taxes of the Group relate to the tax effects of the following:

	2017	2016 (As restated - Note 2)
Deferred tax assets:		
Net operating loss carry-over	\$2,608,320	\$585,691
Unrealized foreign exchange loss on monetary assets - net	275,498	—
Fair value adjustment on property, plant and equipment arising from business combination	263,362	282,192
Allowance for inventory obsolescence	140,006	350,404
Allowance for doubtful accounts	1,611	127,996
Unamortized past service cost	—	118,400
Others	163,005	87,679
	\$3,451,802	\$1,552,362

(Forward)



	2017	2016 (As restated - Note 2)
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment and intangible assets arising from business combination	\$2,498,710	\$2,632,503
Unrealized gain on AFS	194,767	30,277
Prepaid expenses	39,368	206,337
Unrealized foreign exchange loss gain on monetary assets - net	–	157,942
Others	9,609	7,326
	\$2,742,454	\$3,034,385

As of December 31, 2017 and 2016, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2017	2016
Accumulated impairment losses on property, plant and equipment	\$10,138,416	\$10,138,416
Advances from customer	1,147,592	1,425,009
Excess of:		
Cost over NRV of inventories	822,838	976,574
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	–	84,731
Accrued retirement benefits obligation	424,534	672,537
Allowance for doubtful accounts	197,543	54,206
	\$12,730,923	\$13,351,473

STEL

	2017	2016
Depreciation	\$5,866,780	\$6,693,000
Allowance for inventory obsolescence	2,037,199	2,626,000
	\$7,903,979	\$9,319,000

IMI CZ

	2017	2016
Provisions	\$651,639	\$375,769
Allowance for doubtful accounts	296,335	201,236
Excess of cost over NRV of inventories	239,219	170,991
Noncurrent assets	–	706,864
	\$1,187,193	\$1,454,860

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used.

As of December 31, 2017 and 2016, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and the related cumulative translation adjustments since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.



The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2017	2016	2015
Statutory income tax	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	20.05%	20.02%	22.12%
Income subject to gross income tax	(23.16%)	(21.02%)	(22.56%)
Difference in tax jurisdiction	(9.08%)	(8.40%)	(11.15%)
Income subject to ITH	–	(1.02%)	(1.27%)
Interest income subjected to final tax	(0.01%)	(0.03%)	(0.11%)
Provision for income tax	17.81%	19.55%	17.03%

26. Earnings per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

	2017	2016	2015
Net income attributable to parent	\$34,001,982	\$28,115,891	\$28,789,740
Weighted average number of common shares outstanding	1,861,846,929	1,863,320,708	1,858,578,676
Basic and diluted EPS	\$0.018	\$0.015	\$0.015

As of December 31, 2017, 2016 and 2015, the Group has no dilutive potential common shares.

27. Personnel Costs

Details of salaries, wages, and employee benefits follow:

	2017	2016	2015
Salaries, wages and benefits	\$165,841,441	\$132,654,437	\$135,673,340
Employee spin-off (Note 21)	6,442,215	–	–
Retirement expense under defined contribution plans	6,002,663	6,225,339	5,379,119
Net retirement expense under defined benefit plans	1,545,312	1,787,924	1,857,985
Social security costs	2,638,993	1,432,134	2,212,856
Others	3,197,512	5,306,444	7,534,822
	\$185,668,136	\$147,406,278	\$152,658,122

Others include expenses such as subcontracting costs, health/medical premium, housing premium, employee social and recreation, employee awards and recognition, trainings and seminars, labor union expenses, and uniforms.



Salaries, wages, and employee benefits are allocated as follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	\$137,867,620	\$116,183,955	\$121,291,155
Operating expenses (Note 21)	47,800,516	31,222,323	31,366,967
	\$185,668,136	\$147,406,278	\$152,658,122

Defined Benefit Plans

The Parent Company, PSi and IMI BG have defined benefit plans covering substantially all of their employees. The latest actuarial valuations were made on December 31, 2017.

The plan is administered by local banks as trustees. The Board of Trustees is responsible for the investment direction of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy, as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, and the Treasurer. The Treasurer oversees the entire investment process.

The defined benefit plans of the Parent Company and PSi meet the minimum retirement benefit specified under R.A. No. 7641, *Retirement Pay Law*.

The Group has net retirement liabilities attributable to the following:

	2017	2016
Parent Company	\$3,767,659	\$2,782,817
IMI BG	939,952	636,636
PSi	424,534	672,537
	\$5,132,145	\$4,091,990



Parent Company, IMI BG and PSi

Changes in net retirement liabilities of the Parent Company, IMI BG and PSi's defined benefit plans are as follows:

2017													
	Net Retirement Expense					Separation and Benefits Paid	Remeasurements					Actual Contribution	Foreign Currency Exchange Difference
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal		Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal		
Present value of defined benefit obligation	\$16,365,255	\$1,331,644	\$813,833	\$53,772	\$2,199,249	(\$1,262,145)	\$-	(\$456,545)	\$113,312	\$1,015,122	\$671,889	\$-	(\$113,348)
Fair value of plan assets	(12,273,265)	-	(653,937)	-	(653,937)	837,902	336,947	-	-	-	336,947	(1,023,650)	47,248
Net retirement liabilities	\$4,091,990	\$1,331,644	\$159,896	\$53,772	\$1,545,312	(\$424,243)	\$336,947	(\$456,545)	\$113,312	\$1,015,122	\$1,008,836	(\$1,023,650)	(\$66,100)
2016													
	Net Retirement Expense					Separation and Benefits Paid	Remeasurements					Actual Contribution	Foreign Currency Exchange Difference
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal		Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal		
Present value of defined benefit obligation	\$18,642,181	\$1,610,453	\$875,380	(\$29,832)	\$2,456,001	(\$3,505,705)	\$-	\$1,830,464	\$424,077	(\$2,523,613)	(\$269,072)	\$-	(\$958,150)
Fair value of plan assets	(12,850,569)	-	(668,077)	-	(668,077)	2,126,323	401,659	-	-	-	401,659	(1,977,843)	695,242
Net retirement liabilities	\$5,791,612	\$1,610,453	\$207,303	(\$29,832)	\$1,787,924	(\$1,379,382)	\$401,659	\$1,830,464	\$424,077	(\$2,523,613)	\$132,587	(\$1,977,843)	(\$262,908)

The maximum economic benefit available is a contribution of expected refunds from the plans and reductions in future contributions.



The distribution of the plan assets as of December 31, 2017 and 2016 follows:

	2017	2016
Government securities	\$8,665,354	\$8,079,938
Equities	1,394,601	236,163
Mutual funds	1,207,558	1,708,112
Corporate bonds	548,562	421,629
Trust funds	489,245	1,099,889
Investment properties	419,147	408,608
Cash and cash equivalents	38	318,481
Others	4,250	445
	\$12,728,755	\$12,273,265

The plan assets include shares of stock, corporate bonds and deposit instruments of related parties, primarily AC, Ayala Land, Inc. (ALI) and BPI as follows:

	December 31, 2017			
	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
BPI UITF	\$-	\$-	\$351,312	\$351,312
AC bonds	-	393,806	-	393,806
ALI bonds	-	29,731	-	29,731
BPI equity fund	128,296	-	-	128,296
	\$128,296	\$423,537	\$351,312	\$903,145
Carrying Value				
BPI UITF	\$-	\$-	\$350,681	\$350,681
AC bonds	-	394,552	-	394,552
ALI bonds	-	30,042	-	30,042
BPI equity fund	109,259	-	-	109,259
	\$109,259	\$424,594	\$350,681	\$884,534
Unrealized Gain (Loss)				
BPI UITF	\$-	\$-	\$631	\$631
AC bonds	-	(747)	-	(747)
ALI bonds	-	(311)	-	(311)
BPI equity fund	19,037	-	-	19,037
	\$19,037	(\$1,058)	\$631	\$18,610

	December 31, 2016			
	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
BPI UITF	\$-	\$-	\$755,543	\$755,543
AC bonds	-	264,436	-	264,436
ALI bonds	-	31,162	-	31,162
BPI equity fund	259,453	-	-	259,453
	\$259,453	\$295,598	\$755,543	\$1,310,594
Carrying Value				
BPI UITF	\$	\$-	\$754,712	\$754,712
AC bonds	-	261,464	-	261,464
ALI bonds	-	30,169	-	30,169
BPI equity fund	259,480	-	-	259,480
	\$259,480	\$291,633	\$754,712	\$1,305,825

(Forward)



	December 31, 2016			Total
	Equity Securities	Debt Securities	Other Securities	
Unrealized Gain (Loss)				
BPI UITF	\$—	\$—	\$831	\$831
AC bonds	—	2,972	—	2,972
ALI bonds	—	993	—	993
BPI equity fund	(27)	—	—	(27)
	(\$27)	\$3,965	\$831	\$4,769

The plan assets pertain to diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group's defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute \$2.57 million to the defined benefit plans for 2018.

The actual return of plan assets amounted to \$0.32 million, \$0.22 million and \$0.41 million in 2017, 2016 and 2015, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.59 to 24.23 years as of December 31, 2017 and 17.71 to 23.41 years as of December 31, 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
Less than one year	\$1,012,965	\$1,226,047
More than one year to five years	5,457,136	4,100,043
More than five years to ten years	11,650,551	7,968,662
More than ten years to fifteen years	14,656,605	11,725,227
More than fifteen years	63,937,274	47,427,976
	\$96,714,531	\$72,447,955

Principal actuarial assumptions

The principal actuarial assumptions used to determine retirement benefits are shown below:

	2017	2016
Discount rate	1.40% - 5.78%	2.00% - 5.51%
Salary increase rate	4.00% - 5.00%	3.00% - 5.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net retirement liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

Parent Company

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2017	2016
Discount rate	+1%	(\$1,431,139)	(\$1,401,526)
	-1%	1,666,387	1,646,102
Salary increase rate	+1%	1,803,889	1,778,038
	-1%	(1,571,694)	(1,534,545)



IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2017	2016
Discount rate	+1%	(\$25,267)	(\$34,219)
	-1%	26,530	37,802
Salary increase rate	+1%	36,933	25,849
	-1%	(36,936)	(25,799)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2017	2016
Discount rate	+1%	(\$73,132)	(\$103,133)
	-1%	88,563	125,025
Salary increase rate	+1%	95,277	134,019
	-1%	(79,685)	(112,014)

The mortality rate in 2017 and 2016 is based on the 1994 Group Annuity Mortality for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2008-2010 from National Statistical Institute (of Bulgaria) for 2017 and 2016.

The net retirement expense of the Parent Company, IMI BG and PSi under the defined benefit plans is allocated as follows:

	2017	2016	2015
Cost of goods sold and services	\$1,180,625	\$1,283,259	\$1,453,575
Operating expenses	364,687	504,665	404,410
	\$1,545,312	\$1,787,924	\$1,857,985

Defined Contribution Plans

The Parent Company's subsidiaries, excluding PSi and IMI BG, participate in their respective national retirement schemes which are considered as defined contribution plans. The retirement expense of these subsidiaries is allocated as follows:

	2017	2016	2015
Cost of goods sold and services	\$4,792,830	\$4,866,249	\$4,300,805
Operating expenses	1,209,833	1,359,090	1,078,314
	\$6,002,663	\$6,225,339	\$5,379,119

28. Employee Stock Ownership Plan (ESOWN)

The Group has an ESOWN, which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Parent Company's Compensation Committee.



- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1 st Anniversary	5.0%
2 nd Anniversary	7.5%
3 rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:
 - 40% after one (1) year from subscription date
 - 30% after two (2) years from subscription date
 - 30% after three (3) years from subscription date

On August 5, 2015, the Executive Committee of the Parent Company approved the grant of stock options to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the Group.

The fair value of stock options granted in 2015 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	₱141,565,253	₱6.69	143,740,493	₱6.69	135,902,428	₱6.71
Forfeitures	(1,158,757)	8.66	(2,175,240)	6.99	(2,555,329)	6.37
Subscriptions	—	—	—	—	10,393,394	5.11
At end of year	₱140,406,496	₱6.67	141,565,253	₱6.69	143,740,493	₱6.69

The balance of the subscriptions receivable amounted to \$5.35 million, \$12.33 million and \$13.13 million as of December 31, 2017, 2016 and 2015, respectively (see Note 19).

The share option expense amounted to \$0.26 million, \$0.74 million and \$1.53 million in 2017, 2016 and 2015, respectively.

29. Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, VIA and STI are combined under Germany/UK representing newly-acquired subsidiaries, IMI USA, IMI Japan and IMI Singapore/ROHQ are combined being the support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.



The following tables present revenue and profit information regarding the Group's geographical segments per legal entity's location for the years ended December 31, 2017, 2016 and 2015:

December 31, 2017	Philippines		China	Europe	Mexico	Germany/UK	USA/ Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi							
Revenue:									
Third party	\$227,810,114	\$35,916,986	\$271,144,656	\$276,544,742	\$84,167,526	\$193,849,982	\$1,154,183	\$-	\$1,090,588,189
Intersegment	818,300	-	41,309	26,598	-	-	5,690,924	(6,577,131)	-
Total revenue	\$228,628,414	\$35,916,986	\$271,185,965	\$276,571,340	\$84,167,526	\$193,849,982	\$6,845,107	(\$6,577,131)	\$1,090,588,189
Segment interest income	\$1,406,060	\$2,299	\$732,769	\$229	\$-	\$2,911	\$582,264	(\$2,560,286)	\$166,246
Segment interest expense	\$4,705,673	\$607,406	\$546,159	\$1,755,715	\$291,193	\$1,541,777	\$13,170	(\$2,560,286)	\$6,900,807
Segment profit (loss) before income tax	\$8,955,279	(\$426,370)	\$3,633,408	\$28,400,048	\$662,391	\$7,752,895	(\$4,316,778)	(\$2,755,541)	\$41,905,332
Segment provision for income tax	(1,690,363)	(80,212)	(427,769)	(2,907,914)	(225,900)	(2,057,582)	(72,854)	-	(\$7,462,594)
Segment profit (loss) after income tax	\$7,264,916	(\$506,582)	\$3,205,639	\$25,492,134	\$436,491	\$5,695,313	(\$4,389,632)	(\$2,755,541)	\$34,442,738
Net income (loss) attributable to the equity holders of the Parent Company	\$7,264,916	(\$506,582)	\$3,205,639	\$25,492,134	\$436,491	\$5,254,557	(\$4,389,632)	(\$2,755,541)	\$34,001,982

December 31, 2016	Philippines		China	Europe	Mexico	Germany (VIA)	USA/Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi							
Revenue:									
Third party	\$220,655,955	\$33,006,961	\$261,422,882	\$242,735,718	\$65,219,469	\$19,405,163	\$520,276	\$-	\$842,966,424
Intersegment	299,575	1,980	14,997	-	-	-	7,933,316	(8,249,868)	-
Total revenue	\$220,955,530	\$33,008,941	\$261,437,879	\$242,735,718	\$65,219,469	\$19,405,163	\$8,453,592	(\$8,249,868)	\$842,966,424
Segment interest income	\$926,620	\$1,443	\$555,584	\$35,192	\$-	\$12,852	\$641	(\$1,238,297)	\$294,035
Segment interest expense	\$2,712,102	\$681,371	\$284,498	\$620,590	\$305,477	\$105,275	\$9,646	(\$834,505)	\$3,884,454
Segment profit (loss) before income tax	\$8,594,851	(\$2,463,930)	4,502,560	\$32,664,770	(\$2,347,967)	(\$452,949)	\$5,340,625	(\$11,015,407)	\$34,822,553
Segment provision for income tax	(1,244,834)	-	(1,617,569)	(3,476,137)	(434,797)	58,063	(91,370)	-	(6,806,644)
Segment profit (loss) after income tax	\$7,350,017	(\$2,463,930)	\$2,884,991	\$29,188,633	(\$2,782,764)	(\$394,886)	\$5,249,255	(\$11,015,407)	\$28,015,909
Net income (loss) attributable to the equity holders of the Parent Company	\$7,350,017	(\$2,463,930)	\$2,890,240	\$29,188,633	(\$2,782,764)	(\$300,153)	\$5,249,255	(\$11,015,407)	\$28,115,891



December 31, 2015	Philippines		China	Europe	Mexico	USA/ Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	\$225,258,796	\$42,062,621	\$279,263,000	\$206,098,789	\$61,314,195	\$366,703	\$-	\$814,364,104
Intersegment	163,415	256,310	47,179	34,932	-	9,198,302	(9,700,138)	-
Total revenue	\$225,422,211	\$42,318,931	\$279,310,179	\$206,133,721	\$61,314,195	\$9,565,005	(\$9,700,138)	\$814,364,104
Segment interest income	\$1,140,205	\$1,831	\$287,888	\$-	\$-	\$561	(\$772,482)	\$658,003
Segment interest expense	\$1,497,509	\$580,928	\$300,488	\$394,067	\$386,870	\$5,605	(\$449,082)	\$2,716,385
Segment profit (loss) before income tax	\$13,309,497	(\$1,534,782)	(\$241,648)	\$24,379,024	\$70,081	\$2,221,155	(\$3,527,807)	\$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,066,664)	(2,775,475)	(196,951)	(21,780)	-	(5,905,408)
Segment profit (loss) after income tax	\$11,558,551	(\$1,628,374)	(\$1,308,312)	\$21,603,549	(\$126,870)	\$2,199,375	(\$3,527,807)	\$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	\$11,558,551	(\$1,628,374)	(\$1,288,684)	\$21,603,549	(\$126,870)	\$2,199,375	(\$3,527,807)	\$28,789,740



Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to \$6.58 million in 2017, \$8.25 million in 2016 and \$9.70 million in 2015, intersegment cost of sales of \$1.60 million in 2017, \$0.99 million in 2016 and \$0.17 million in 2015, and intersegment operating expenses aggregating to \$5.00 million in 2017, \$7.12 million in 2016 and \$9.12 million in 2015.

The following table presents segment assets of the Group's geographical segments as of December 31, 2017 and 2016:

	Philippines		China	Europe	Mexico	Germany /UK	USA/ Japan/ Singapore	Consoli- dation and Eliminations	Total
	Parent Company	PSi							
2017	\$443,014,897	\$14,853,176	\$243,686,394	\$266,002,107	\$96,275,914	\$165,672,832	\$288,064,280	(\$596,217,972)	\$921,351,628
2016 (As Restated - Note 2)	\$322,954,699	\$15,430,820	\$202,925,835	\$199,169,397	\$64,528,625	\$33,074,977	\$224,787,667	(\$423,743,586)	\$639,128,434

Investments in subsidiaries and intersegment receivables amounting to \$195.36 million and \$131.84 million as of December 31, 2017, respectively, and \$180.13 million and \$46.88 million as of December 31, 2016, respectively are eliminated in consolidation.

Goodwill arising from the acquisition of STI, STEL, VIA, IMI USA and IMI CZ amounting to \$55.95 million, \$45.13 million, \$44.54 million, \$0.66 million, and \$0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2017 and 2016.

The following table presents revenues from external customers based on customer's nationality:

	2017	2016	2015
Europe	\$519,149,422	\$458,851,700	\$426,440,705
America	240,888,727	204,853,252	205,280,233
Japan	42,842,182	40,861,642	52,900,214
Rest of Asia/Others	287,707,858	138,399,830	129,742,952
	\$1,090,588,189	\$842,966,424	\$814,364,104

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 12.58%, 14.97% and 13.29% of the Group's total revenue in 2017, 2016 and 2015, respectively.

The following table presents revenues per product type:

	2017	2016	2015
Automotive	\$446,460,645	\$377,639,245	\$343,772,744
Industrial	221,670,425	177,267,436	145,487,460
Consumer	188,760,154	71,038,949	80,348,722
Telecommunication	121,639,521	131,304,615	132,929,944
Aerospace/Defense	24,973,446	-	-
Medical	19,303,996	21,280,959	26,607,884
Multiple market/others	67,780,002	64,435,220	85,217,350
	\$1,090,588,189	\$842,966,424	\$814,364,104



The following table presents noncurrent assets based on their physical location:

	2017	2016 (As restated - Note 2)
Europe*	\$172,379,424	\$95,625,581
America**	40,558,918	31,286,745
Rest of Asia/Others	121,927,192	100,225,924
	\$334,865,534	\$227,138,250

*Pertains to Europe, Germany and UK

**Pertains to Mexico and USA

Noncurrent assets include property, plant and equipment, goodwill and intangible assets.

The following table presents the depreciation and amortization expense based on their physical location:

	2017	2016	2015
Europe*	\$9,268,724	\$5,412,631	\$5,599,379
America**	3,969,119	2,765,263	2,013,240
Rest of Asia/Others	15,391,928	16,283,900	15,636,051
	\$28,629,771	\$24,461,794	\$23,248,670

*Pertains to Europe, Germany and UK

**Pertains to Mexico and USA

30. Lease Commitments

Finance Lease Commitments - Group as Lessee

STI has assets held under finance leases and hire purchase contracts related to its manufacturing/IT equipment with terms of 3 to 5 years subject to interest rates ranging from 1.9% to 4.7% per annum.

Future minimum lease payments as of December 31, 2017 follows:

Within one year	\$245,518
After one year but not more than five years	223,771
More than five years	-
	\$469,289

Interest expense related to the finance lease amounted to \$0.01 million.

Operating Lease Commitments - Group as Lessee

Parent Company

The Parent Company entered into an amended lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three years, commencing on January 1, 2017 up to December 31, 2019, renewable at the option of the lessor upon such terms and conditions, and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The monthly rent shall be equivalent to ₱44.00 per sqm. For the remaining term of the lease, the rent shall be subject to annual escalation rate of 5%.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16 Phase 4 PEZA, Rosario, Cavite to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to \$2,165 in 2017 with an escalation rate every year.



IMI Singapore and STEL Group

IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to ten years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

In 2017, the new entity IMI Technology entered into a lease agreement on its manufacturing facility covering a period of six years from May 2017 to May 2023. The lease premise is a 5-floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzhen.

IMI Japan

On February 15, 2012, IMI Japan entered into a 6-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya, whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor.

IMI USA

On November 16, 2014, IMI USA entered into a third amendment to a standard industrial commercial single tenant lease contract for an extended term of 5 years commencing from November 1, 2015 to October 31, 2020 with Roy G. Harris and Patricia S. Harris for the lease of office premises. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of \$12,927 during the first year of the lease term and shall be increased based on fixed rental adjustments as set forth in the contract.

PSi

Taguig facilities

The operating lease agreement of PSi with FTI for its plant facilities office spaces and other facilities has been pre-terminated effective December 31, 2017.

Rent expense recognized in 2017, 2016 and 2015 amounted \$1.34 million, \$1.37 million and \$1.40 million, respectively. PSi also paid pre-termination penalties amounting \$0.08 million in 2017.

Laguna facilities

PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

In 2015, the operating lease agreement for the second facility was renewed and executed between CRI and the Company. The operating lease agreement commenced on October 16, 2015 and will expire on October 18, 2018. The operating lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

VIA

VIA leases buildings, cars and other equipment based on leasing contracts for a period ranging from 1 to 5 years.

STI

STI have various operating lease agreements in respect of vehicles, equipment, office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to forty-four years. There are no restrictions placed upon the lessee by entering into these leases.

Accrued rent amounted to \$0.25 million as of December 31, 2017.



Future minimum rentals payable under operating leases of the Group as of December 31, 2017 and 2016 follow:

	2017	2016
Within one year	\$5,127,471	\$4,905,841
After one year but not more than five years	12,453,854	13,686,398
More than five years	2,453,943	4,808,727
	\$20,035,268	\$23,400,966

31. 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 or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017, 2016 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an affiliate

As of December 31, 2017 and 2016, the Group maintains current and savings accounts and short-term investments with BPI amounting to \$2.85 million and \$0.93 million, respectively.

Total interest income earned from investments with BPI amounted to \$6,797, \$4,247 and \$25,698 for the years ended December 31, 2017, 2016 and 2015, respectively.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables/Deposits		Payables	
	2017	2016	2017	2016
Isuzu Automotive Dealership, Inc. (IADI)	\$456,447	\$-	\$-	\$-
Honda Cars Makati, Inc. (HCMI)	273,868	-	-	-
ACEHI (Note 13)	146,126	482,844	-	-
Automotive Central Enterprise, Inc. (ACEI)	63,903	-	-	-
Innovate Communication Inc. (ICI)	-	-	5,868	276
Globe Telecom, Inc. (GTI)	-	-	3,716	6,023
AC	-	-	-	584,070
	\$940,344	\$482,844	\$9,584	\$590,369

- i. Transaction with IADI, HCMI and ACEI pertains to management fee on corporate and support services.



- ii. Transaction with ACEHI represents deposit required by the distribution utility (DU) in a form of cash in accordance with the distribution wheeling services agreement between ACEHI and the DU, to be returned to the Parent Company at the end of the contract term.
 - iii. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.
 - iv. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.
 - v. Payable to AC are nontrade in nature and pertain to transaction costs paid in advance in relation to VIA acquisition.
- c. Outstanding balances of transactions with subsidiaries from the Parent Company's point of view follow:

	Receivables		Payables	
	2017	2016	2017	2016
IMI Singapore	\$68,563,325	\$1,464,524	\$-	\$58,353
IMI EU/MX Subsidiaries	42,282,449	24,100,160	26,598	8,570
PSi	26,384,369	16,722,133	101,828	98,735
STI	3,299,031	-	-	-
IMI Japan	1,002,688	992,531	501,959	604,196
IMI USA	265,398	261,963	320,097	370,856
STEL	252,465	191,271	1,701,802	1,449,193
IMI ROHQ	12,778	25,213	646,668	779,761
	\$142,062,503	\$43,757,795	\$3,298,952	\$3,369,664

The outstanding balances are eliminated upon consolidation.

- i. Advances to PSi and IMI EU/MX Subsidiaries have a 90-day term subject to interest rates ranging from 2.00% to 2.90% in 2017, from 1.00% to 2.88% in 2016 and from 1.25% to 2.85% in 2015.

Advances to STI have a 60 to 90-day term subject to interest rates ranging from 3.21% to 3.37% in 2017.

Other receivables from IMI EU/MX Subsidiaries, PSi, STI, IMI Japan, IMI Singapore, IMI USA and STEL are nontrade in nature and pertain to operating cash advances made by the Parent Company. These are noninterest-bearing and are due on demand.

Receivables from IMI ROHQ are nontrade in nature and represent the retirement expense for IMI ROHQ's employees to be funded by the Parent Company's retirement plan upon availment. In 2016, the retirement expense is being included in the service fees billed by ROHQ to the Parent Company.

- ii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as an administrative, communications and coordinating center for its affiliates. These advances are noninterest-bearing and are payable on demand.
- iii. Payables to STEL pertain to non-trade related transactions which include freight and handling charges, business travel expenses and consideration for the net assets transferred by STPH to the Parent Company. These advances are noninterest-bearing and are payable on demand.
- iv. Payables to IMI Japan and IMI USA are nontrade in nature and pertain to administrative expenses paid by the Parent Company on their behalf.



d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2017	2016	2015	2017	2016	2015
IADI	\$456,447	\$—	\$—	\$—	\$—	\$—
HCMI	273,868	—	—	—	—	—
ACEI	63,903	—	—	—	—	—
BPI	6,797	4,247	25,698	—	—	—
ACEHI	—	—	—	5,199,357	—	—
Direct Power Services, Inc. (DPSI)	—	—	—	3,368,862	—	—
TLI	—	—	—	1,029,332	1,045,948	1,093,559
AC	—	—	—	404,588	687,142	—
AG Legal	—	—	—	88,560	197,308	93,108
GTI	—	—	—	85,595	85,755	86,260
ICI	—	—	—	70,243	92,923	88,936
	\$801,015	\$4,247	\$25,698	\$10,246,537	\$2,109,076	\$1,361,863

Revenue/income from its affiliates pertains to the following transactions:

- i. Revenues from IADI, HCMI and ACEI represent recoveries for the provision of corporate and support services.
- ii. Interest income earned from investments with BPI.

Expenses incurred from related party transactions include:

- i. Light and power allocation charged by ACEHI to the Parent Company.
- ii. Light and power allocation charged by DPSI to PSi.
- iii. Rental expense from the lease contract between the Parent Company and TLI.
- iv. Administrative services charged by AC related to certain transactions
- v. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
- vi. Billings for cellphone charges and WiFi connections with GTI.
- vii. Building rental, leased lines, internet connections and ATM connections with ICI.

e. Revenue and expenses eliminated at the Group level follow:

- i. Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to IMI Singapore for recovery costs and billings to IMI Singapore and the Parent Company for management salaries of key management personnel under IMI ROHQ.
- ii. Expenses incurred from related party transactions include interest expense of PSi, IMI MX, STI and IMI CZ from loans granted by the Parent Company.

Compensation of Key Management Personnel of the Group

Compensation of key management personnel by benefit type follows:

	2017	2016
Short-term employee benefits	\$9,237,705	\$7,940,519
Post-employment benefits	476,876	280,248
Share-based payments	210,608	643,098
	\$9,925,189	\$8,863,865



32. Fair Values of Financial Instruments

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values

Financial assets and financial liabilities that are liquid or are short-term in nature which consist of cash and cash equivalents, receivables, accounts payables and accrued expenses, loans and trust receipts payable and current portion of long-term debt, are assumed to have carrying amounts approximating their fair values.

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of December 31, 2017 and 2016:

	Carrying Amounts		Fair Values	
	2017	2016	2017	2016
Financial assets:				
AFS financial assets	\$831,364	\$740,949	\$831,364	\$740,949
Derivative assets	–	67,062	–	67,062
	\$831,364	\$808,011	\$831,364	\$808,011
Financial liabilities:				
Derivative liabilities	\$30,144	\$10,567	\$30,144	\$10,567
Financial liabilities on put options	21,912,259	11,334,282	21,912,259	11,334,282
Contingent consideration	24,975,209	–	24,975,209	–
Noncurrent portion of:				
Long-term debt	158,224,056	121,144,043	155,395,517	118,083,096
	\$205,141,668	\$132,488,892	\$202,313,129	\$129,427,945

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Derivatives - These pertain to currency forwards hedged by the Group for risks associated with foreign currency fluctuations. The fair value of the currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturities as advised by the counterparty to the currency forwards contracts.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.26% for VIA and 0.91% for STI. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.



For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Noncurrent portion of long-term debt - The fair value of long-term debt is estimated by using the discounted cash flow method using the current incremental borrowing rates for similar borrowings, with maturities consistent with those remaining for the liability being valued. The discount rates used for 2017 and 2016 ranged from 0.90% to 2.99% and from 1.00% to 2.91%, respectively.

Contingent consideration - this pertains to the contingent consideration related to the acquisition of STI determined based on probability-weighted payout discounted at 8% at the date of acquisition to determine its fair value. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Fair Value Hierarchy

The following tables provide the fair value hierarchy of the Group's assets and liabilities:

	December 31, 2017			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value:				
Derivative assets	\$–	\$–	\$–	\$–
AFS financial assets	–	831,364	–	831,364
	\$–	\$831,364	\$–	\$831,364
Liabilities measured at fair value:				
Derivative liabilities	\$–	\$30,144	\$–	\$30,144
Financial liabilities on put options	–	–	21,912,259	21,912,259
Contingent consideration	–	–	24,975,209	24,975,209
	\$–	\$30,144	\$46,887,468	\$46,917,612
Liabilities for which fair values are disclosed:				
Long-term debt	\$–	\$–	\$155,395,517	\$155,395,517

	December 31, 2016			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value:				
Derivative assets	\$—	\$67,062	\$—	\$67,062
AFS financial assets	—	740,949	—	740,949
	\$—	\$808,011	\$—	\$808,011
Liabilities measured at fair value:				
Derivative liabilities	\$—	\$10,567	\$—	\$10,567
Financial liabilities on put options	—	—	11,334,282	11,334,282
	\$—	\$10,567	\$11,334,282	\$11,344,849
Liabilities for which fair values are disclosed:				
Long-term debt	\$—	\$—	\$118,083,096	\$118,083,096



The table below shows reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	Dec 31, 2016	Additions	Mark-to- market gains- net	Dec 31, 2017
Financial liabilities on put options	\$11,334,282	\$12,876,641	(\$2,298,664)	\$21,912,259
Contingent consideration	–	24,975,209	–	24,975,209
	\$11,334,282	\$37,851,850	(\$2,298,664)	\$46,887,468

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial liabilities on put options	Discounted, probability- weighted cash flow method	Growth rate	0%-2% (1%)	1% increase in growth rate would result in an increase in fair value by \$0.81 million. Decrease in growth rate by 1% would result in a fair value decrease of \$0.66 million.
		Discount rate	10%-12% (11%)	1% increase in discount rate would result in a decrease in fair value by \$0.91 million. Decrease in discount rate by 1% would result in a fair value increase of \$1.11 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by \$2.76 million. Decrease in the probability to 1% would result in a decrease in fair value by \$5.66 million.
Contingent consideration	Discounted, probability- weighted payout	Discount rate	7%-9% (8%)	1% increase in discount rate would result in a decrease in fair value by \$0.45 million. Decrease in discount rate by 1% would result in a fair value increase of \$0.47 million.
		Probability of pay-out	£0 to £23.3 million (\$0 to \$30.20 million)	£0 to £23.3 million (\$0 to \$30.20 million)

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans and trust receipts payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Group also enters into currency forwards to manage the currency risk arising from its operations and financial instruments.



The Group's risk management policies are summarized below:

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) for the years ended December 31, 2017 and 2016. There is no other impact on the Group's equity other than those already affecting income.

Increase/Decrease in Basis Points	Effect on Net Income before Tax	
	2017	2016
+100	(\$69,643)	(\$85,505)
-100	\$69,643	85,505

The following table shows the information about the Group's debt as of December 31, 2017 and 2016 that are exposed to interest rate risk presented by maturity profile:

	2017	2016
Within one year	\$3,301,122	\$7,051,886
One to five years	3,663,209	1,498,600
	\$6,964,331	\$8,550,486

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

	2017				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	\$67,581,023	\$22,963,742	\$-	\$-	\$90,544,765
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	-	185,143,187	-	-	185,143,187
Accrued expenses**	-	17,399,154	-	-	17,399,154
Accrued compensation and benefits	-	24,233,636	-	-	24,233,636
Nontrade payables	-	12,785,361	-	-	12,785,361
Accrued interest payable	-	-	1,075,657	-	1,075,657
Derivative liabilities	-	30,144	-	-	30,144
Due to related parties	-	9,584	-	-	9,584
Others	-	1,740,651	-	-	1,740,651
Financial liabilities on put options	21,912,259	-	-	-	21,912,259
Contingent consideration	-	-	405,601	24,569,608	24,975,209
Loans and trust receipts payable	-	118,500,979	16,556,641	-	135,057,620
Current portion of long-term debt	-	-	6,872,679	-	6,872,679
Noncurrent portion of long-term debt***	-	-	-	159,287,699	159,287,699
	21,912,259	359,842,696	24,910,578	183,857,307	590,522,840
	\$45,668,764	(\$336,878,954)	(\$24,910,578)	(\$183,857,307)	(\$499,978,075)

* Excluding cash on hand.

** Excluding statutory payables.

*** Including future interest payments.



	2016				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	\$75,816,054	\$10,648,980	\$—	\$—	\$86,465,034
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	—	136,114,721	—	—	136,114,721
Accrued expenses**	—	12,907,253	—	—	12,907,253
Accrued compensation and benefits	—	21,685,525	—	—	21,685,525
Nontrade payables	—	8,050,234	—	—	8,050,234
Accrued interest payable	—	—	769,072	—	769,072
Derivative liabilities	—	10,567	—	—	10,567
Due to related parties	—	590,369	—	—	590,369
Others	—	1,701,386	—	—	1,701,386
Financial liabilities on put options	11,334,282	—	—	—	11,334,282
Loans and trust receipts payable	—	34,341,720	17,103,449	—	51,445,169
Current portion of long-term debt	—	5,222,000	2,963,053	—	8,185,053
Noncurrent portion of long-term debt***	—	—	—	122,916,769	122,916,769
	11,334,282	220,623,775	20,835,574	122,916,769	375,710,400
	\$64,481,772	(\$209,974,795)	(\$20,835,574)	(\$122,916,769)	(\$289,245,366)

* Excluding cash on hand.

** Excluding statutory payables.

*** Including future interest payments.

Credit lines

The Group has credit lines with different financing institutions as of December 31, 2017 and 2016, as follows:

Financial Institution	2017		2016	
	Credit Limit	Available Credit Line	Credit Limit	Available Credit Line
Local:				
USD	58,000,000	25,599,021	54,000,000	44,550,000
PHP	400,000,000	400,000,000	100,000,000	100,000,000
Foreign:				
USD	142,011,034	54,011,034	89,318,841	56,318,841
Singapore Dollar (SGD)	34,000,000	34,000,000	17,000,000	17,000,000
EUR	18,830,000	13,551,034	9,830,000	6,897,783
GBP	2,500,000	—	—	—

Credit Risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk as of December 31, 2017 and 2016 is the carrying amounts of the financial assets. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 20% and 37% of trade receivables relating to three major customers as of December 31, 2017 and 2016, respectively.



As of December 31, 2017 and 2016, the aging analysis of receivables and miscellaneous deposits follows:

December 31, 2017								
Total	Neither Past Due Nor Impaired	Past Due but not Impaired					Specifically Impaired	
		<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days		
Trade	\$252,636,453	\$220,285,730	\$20,241,712	\$4,386,668	\$2,071,274	\$2,173,212	\$2,727,141	\$750,716
Nontrade	10,141,732	8,248,972	369,528	483,439	46,246	484,653	329,979	178,915
Receivable from insurance	1,076,287	5,028	-	-	-	-	-	1,071,259
Due from related parties	794,218	794,218	-	-	-	-	-	-
Receivable from employees	424,658	420,301	-	-	-	-	-	4,357
Others	52,274	52,274	-	-	-	-	-	-
	\$265,125,622	\$229,806,523	\$20,611,240	\$4,870,107	\$2,117,520	\$2,657,865	\$3,057,120	\$2,005,247
Miscellaneous deposits	\$1,647,864	\$1,647,864	\$-	\$-	\$-	\$-	\$-	\$-

December 31, 2016								
Total	Neither Past Due Nor Impaired	Past Due but not Impaired					Specifically Impaired	
		<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days		
Trade	\$192,152,117	\$155,163,040	\$24,242,735	\$5,877,578	\$2,927,958	\$1,632,926	\$1,712,327	\$595,553
Nontrade	3,804,516	3,667,305	3,191	16,807	14,248	1,220	39,171	62,574
Receivable from insurance	1,860,624	789,365	-	-	-	-	-	1,071,259
Receivable from employees	553,745	549,388	-	-	-	-	-	4,357
Due from related parties	299,713	299,713	-	-	-	-	-	-
Others	32,164	32,164	-	-	-	-	-	-
	\$198,702,879	\$160,500,975	\$24,245,926	\$5,894,385	\$2,942,206	\$1,634,146	\$1,751,498	\$1,733,743
Miscellaneous deposits	\$2,596,176	\$2,596,176	\$-	\$-	\$-	\$-	\$-	\$-

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2017 and 2016:

December 31, 2017						
	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	\$90,627,228	\$-	\$-	\$-	\$-	\$90,627,228
Receivables:						
Trade	6,946,612	213,339,118	-	-	32,350,723	252,636,453
Nontrade	8,243,943	-	-	-	1,897,789	10,141,732
Receivable from insurance	5,028	-	-	-	1,071,259	1,076,287
Receivable from employees	420,301	-	-	-	4,357	424,658
Due from related parties	794,218	-	-	-	-	794,218
Others	52,274	-	-	-	-	52,274
AFS financial assets	831,364	-	-	-	-	831,364
Miscellaneous deposits	1,647,864	-	-	-	-	1,647,864
	\$109,568,832	\$213,339,118	\$-	\$-	\$35,324,128	\$358,232,078

December 31, 2016						
	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	\$86,465,034	\$-	\$-	\$-	\$-	\$86,465,034
Receivables:						
Trade	3,853,310	151,309,730	-	-	36,989,077	192,152,117
Nontrade	3,667,305	-	-	-	137,211	3,804,516
Receivable from insurance	789,365	-	-	-	1,071,259	1,860,624
Receivable from employees	549,388	-	-	-	4,357	553,745
Due from related parties	299,713	-	-	-	-	299,713
Others	32,164	-	-	-	-	32,164
AFS financial assets	740,949	-	-	-	1,753,589	2,494,538
Miscellaneous deposits	2,596,176	-	-	-	-	2,596,176
	\$98,993,404	\$151,309,730	\$-	\$-	\$39,955,493	\$290,258,627

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.



Fairly High Risk - Credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 2017 and 2016, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 48% and 53% of the Group's sales for the years ended December 31, 2017 and 2016, respectively, and 44% and 43% of costs for the years ended December 31, 2017 and 2016, respectively, are denominated in currencies other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their USD equivalent follows:

Renminbi (RMB)

	2017		2016	
	In USD	In RMB	In USD	In RMB
Cash and cash equivalents	\$23,135,310	RMB151,170,744	\$16,577,471	RMB115,209,331
Receivables	66,072,151	431,728,647	60,578,249	421,003,887
Accounts payable and accrued expenses	(50,344,676)	(328,962,181)	(42,505,531)	(295,402,952)
Net foreign currency-denominated assets	\$38,862,785	RMB253,937,210	\$34,650,189	RMB240,810,266

Philippine Peso (₱)

	2017		2016	
	In USD	In PHP	In USD	In PHP
Cash and cash equivalents	\$5,503,962	₱274,812,802	\$3,188,406	₱158,548,273
Receivables	275,400	13,750,735	676,493	33,639,648
Miscellaneous deposits	691,463	34,524,738	1,059,645	52,692,422
Accounts payable and accrued expenses	(9,201,618)	(459,436,808)	(17,222,268)	(856,403,199)
Net retirement liabilities	(4,192,193)	(209,316,217)	(3,174,729)	(157,868,158)
Other noncurrent liabilities	(396,768)	(19,810,638)	(398,392)	(19,810,638)
Net foreign currency-denominated liabilities	(\$7,319,754)	(₱365,475,388)	(\$15,870,845)	(₱789,201,652)

Euro (€)

	2017		2016	
	In USD	In EUR	In USD	In EUR
Cash and cash equivalents	\$2,442,491	€2,041,189	\$1,523,971	€1,459,187
Receivables	3,891,129	3,251,817	3,117,551	2,985,024
Accounts payable and accrued expenses	(5,173,081)	(4,323,144)	(4,756,835)	(4,554,622)
Long-term debt	-	-	(236,682)	(226,621)
Net foreign currency-denominated assets	\$1,160,539	€969,862	(\$351,995)	€(337,032)



Sensitivity Analysis

The following tables demonstrate sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2017 and 2016. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in USD rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger USD value.

Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax	
		2017	2016
RMB	+1%	(\$238,314)	(197,413)
	-1%	238,314	197,413
PHP	+1%	70,719	88,429
	-1%	(70,719)	(88,429)
EUR	+1%	(11,605)	(\$2,085)
	-1%	11,605	2,085

Derivatives

The Parent Company entered into various short-term currency forwards with an aggregate notional amount of \$5.85 million in 2017 and \$9.00 million in 2016. As of December 31, 2017 and 2016, the outstanding forward contracts have a net negative fair value of \$0.03 million. The changes in fair value of currency forwards recognized in 2017 and 2016 amounted to \$0.03 million loss and \$0.11 million gain, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

Fair Value Changes on Derivatives

The net movements in the fair value of the Group's derivative instruments as of December 31, 2017 and 2016 follow:

	2017	2016
Financial assets:		
At beginning of year	\$67,062	\$66,117
Fair value of currency forwards	-	100,807
Fair value of settled instruments	(67,062)	(99,862)
At end of year	\$-	\$67,062
Financial liabilities:		
At beginning of year	\$10,567	\$10,567
Fair value of currency forwards	30,144	214,262
Fair value of settled currency forwards	(10,567)	(214,262)
At end of year	\$30,144	\$10,567

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.

No changes were made in the objectives, policies and processes for the years ended December 31, 2017 and 2016.



The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2017	2016
Loans and trust receipts payable	\$135,057,620	\$51,445,169
Long-term bank borrowings	160,001,217	122,742,296
Total bank debt	295,058,837	174,187,465
Less cash and cash equivalents	90,627,228	86,548,735
Net bank debt	204,431,609	87,638,730
Equity attributable to equity holders of the Parent Company	\$273,739,415	\$236,606,259
Debt-to-equity ratio	1.08:1	0.74:1
Net debt-to-equity ratio	0.75:1	0.37:1

The Group is not subject to externally imposed capital requirements.

34. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

35. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the development phase of certain projects amounting to \$1.15 million and \$1.90 million for 2017 and 2016, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

	Cash Flows			Non-cash changes					
	2016	Availment	Settlement/ Payment	Reclass	Declaration	Acquisition through business combination	Foreign currency translation		2017
Dividends payable	\$-	\$-	(\$8,434,600)	\$-	\$8,434,600	\$-	\$-	\$-	\$-
Loans and trust receipts payable	51,445,169	87,655,238	(20,419,648)	-	-	14,849,005	1,527,856	135,057,620	
Current portion of long-term debt	8,185,053	-	(8,548,036)	6,217,081	-	129,350	889,232	6,872,680	
Long-term debt	121,144,043	43,422,063	(629,350)	(6,217,081)	-	129,350	375,031	158,224,056	
	\$180,774,265	\$131,077,301	(\$38,031,634)	\$-	\$8,434,600	\$15,107,705	\$2,792,119	\$300,154,356	



36. Events after Balance Sheet Date

On February 20, 2018, the BOD of the Parent Company approved the declaration of cash dividend of \$0.00458 or ₱0.235 per share to all outstanding common shares as of record date of March 7, 2018 payable on March 21, 2018.

On February 20, 2018, the BOD of the Parent Company approved the increase of the Parent Company's authorized capital stock from ₱2.45 billion to ₱3.0 billion, and the corresponding amendment of the Seventh Article of the Articles of Incorporation. This will be presented to the stockholders for approval at the annual meeting on April 13, 2018.

On January 30, 2018, IMI obtained the approval of the PSE for a stock rights offer of up to 350,000,000 new common shares to eligible shareholders in order to raise up to ₱5.00 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at the PSE as of February 7, 2018 at a discount of 25.3%. Offer period is from February 19 to February 23, 2018. The listing date is on March 2, 2018

On January 5, 2018, the 33% share transfer related to the sale by STEL of SZSTE to Jinnuo Century Trading Limited was approved by the government. The remaining share transfers are still in process.



Integrated Micro-electronics, Inc. and Subsidiaries
Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2017

		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework for Financial Reporting				
Philippine Financial Reporting Standards (PFRS) Practice Statement Management Commentary		✓		
PFRS				
PFRS 1	First-time Adoption of PFRS			✓
	PFRS 1 and Philippine Accounting Standards (PAS) 27 (Amendments) - <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>			✓
	PFRS 1 (Amendments) - <i>Additional Exemptions for First-time Adopters</i>			✓
	PFRS 1 (Amendments) - <i>Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>			✓
	PFRS 1 (Amendments) - <i>Severe Hyperinflation and Removal of Fixed Date of First-time Adopters</i>			✓
	PFRS 1 (Amendments) - <i>Government Loans</i>			✓
PFRS 2	Share-based Payment	✓		
	PFRS 2 (Amendments) - <i>Vesting Conditions and Cancellations</i>	✓		
	PFRS 2 (Amendments) - <i>Group Cash-settled Share-based Payment Transactions</i>			✓
	PFRS 2 (Amendments) - <i>Share-based Payment, Classification and Measurement of Share-based Payment Transactions</i>	NOT EARLY ADOPTED		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	PAS 39 and PFRS 4 (Amendments) - <i>Financial Guarantee Contracts</i>			✓
	PFRS 4 (Amendments) - <i>Applying PFRS 9 with PFRS 4</i>	NOT EARLY ADOPTED		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	PFRS 7 (Amendments) - <i>Reclassification of Financial Assets</i>			✓
	PFRS 7 (Amendments) - <i>Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	PFRS 7 (Amendments) - <i>Improving Disclosures about Financial Instruments</i>	✓		
	PFRS 7 (Amendments) - <i>Disclosures - Transfers of Financial Assets</i>			✓
	PFRS 7 (Amendments) - <i>Offsetting Financial Assets and Financial Liabilities</i>			✓
	PFRS 7 (Amendments) - <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>	NOT EARLY ADOPTED		
	PFRS 7 (Amendments) – <i>Hedge Accounting</i>	NOT EARLY ADOPTED		
PFRS 8	Operating Segments	✓		
PFRS 9 (2014)	Financial Instruments	NOT EARLY ADOPTED		
PFRS 10	Consolidated Financial Statements	✓		
	PFRS 10 (Amendments) - <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>			✓
	PFRS10 (Amendments) – Investment Entities: Applying the Consolidation exceptions			✓
	PFRS 10 (Amendments) - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture^a</i>	NOT EARLY ADOPTED		
PFRS 11	Joint Arrangements			✓
	PFRS 11 (Amendments) - <i>Accounting for Acquisitions of Interests in Joint Operations</i>			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	PFRS 12 (Amendments) – <i>Transition Guidance</i>			✓
	PFRS 12 (Amendments) - <i>Investment Entities</i>			✓
	PFRS 12 (Amendments) - <i>Investment Entities: Applying the Consolidation Exception</i>			✓

		Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	NOT EARLY ADOPTED		
PFRS 16	Leases	NOT EARLY ADOPTED		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	PAS 1 (Amendments) - <i>Puttable Financial Instruments and Obligations Arising from Liquidation</i>			✓
	PAS 1 (Amendments) - <i>Presentation of Items of Other Comprehensive Income</i>	✓		
	PAS 1 (Amendments) – <i>Disclosure Initiative</i>	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	PAS 7 (Amendments) – <i>Disclosure Initiative</i>	NOT EARLY ADOPTED		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	PAS 12 (Amendments) - <i>Deferred Tax: Recovery of Underlying Assets</i>	✓		
	PAS 12 (Amendments) - <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	NOT EARLY ADOPTED		
PAS 16	Property, Plant and Equipment	✓		
	PAS 16 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>			✓
	PAS 16 (Amendments) - <i>Bearer Plants</i>			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	PAS 19 (Amendments) - <i>Defined Benefit Plans: Employee Contributions</i>	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign	✓		

		Adopted	Not Adopted	Not Applicable
	Exchange Rates			
	PAS 21 (Amendments) - <i>Net Investment in a Foreign Operation</i>	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	PAS 27 (Amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	PAS 27 (Amendments) - <i>Investment Entities</i>	✓		
	PAS 27 (Amendments) - <i>Equity Method in Separate Financial Statements</i>			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	PAS 28 (Amendments) – <i>Investment Entities: Applying the Consolidation Exception</i>			✓
	PAS 28 (Amendments) - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture^a</i>	NOT EARLY ADOPTED		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	PAS 32 and PAS 1 (Amendments) - <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓
	PAS 32 (Amendments) - <i>Classification of Rights Issues</i>			✓
	PAS 32 (Amendments) - <i>Offsetting Financial Assets and Financial Liabilities</i>	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	PAS 36 (Amendments) - <i>Recoverable Amount Disclosures for Non-financial Assets</i>	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		

		Adopted	Not Adopted	Not Applicable
PAS 38	Intangible Assets	✓		
	PAS 38 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	PAS 39 (Amendments) - <i>Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>	✓		
	PAS 39 (Amendments) - <i>Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>			✓
	PAS 39 (Amendments) - <i>The Fair Value Option</i>			✓
	PAS 39 and PFRS 4 (Amendments) - <i>Financial Guarantee Contracts</i>			✓
	PAS 39 and PFRS 7 (Amendments) - <i>Reclassification of Financial Assets</i>			✓
	PAS 39 and PFRS 7 (Amendments) - <i>Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	Philippine Interpretation IFRIC 9 and PAS 39 (Amendments) - <i>Embedded Derivatives</i>			✓
	PAS 39 (Amendments) - <i>Eligible Hedged Items</i>			✓
	PAS 39 (Amendments) - <i>Novation of Derivatives and Continuation of Hedge Accounting</i>			✓
	PAS 39 (Amendments) – <i>Hedge Accounting</i>			✓
PAS 40	Investment Property			✓
	PAS 40 (Amendments) - <i>Transfers of Investment Property</i>	NOT EARLY ADOPTED		
PAS 41	Agriculture			✓
	PAS 41 (Amendments) - <i>Bearer Plants</i>			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining whether an Arrangement Contains a Lease	✓		

		Adopted	Not Adopted	Not Applicable
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
IFRIC 15^a	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	NOT EARLY ADOPTED		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓

		Adopted	Not Adopted	Not Applicable
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
Annual Improvements to PFRSs (2010-2012 Cycle)				
PAS 16	Property, Plant and Equipment - <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization</i>			✓
PAS 38	Intangible Assets - <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization</i>			✓
PAS 24	Related Party Disclosures - <i>Key Management Personnel</i>	✓		
PFRS 2	Share-based Payment - <i>Definition of Vesting Condition</i>	✓		
PFRS 3	Business Combinations - <i>Accounting for Contingent Consideration in a Business Combination</i>	✓		
PFRS 8	Operating Segments - <i>Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets</i>			✓
Annual Improvements to PFRSs (2011-2013 Cycle)				
PAS 40	Investment Property			✓
PFRS 3	Business Combinations - <i>Scope Exceptions for Joint Arrangements</i>			✓
PFRS 13	Fair Value Measurement - <i>Portfolio Exception</i>			✓
Annual Improvements to PFRSs (2012-2014 Cycle)				
PAS 19	Employee Benefits - <i>Regional Market Issue Regarding Discount Rate</i>			✓
PAS 34	<i>Disclosure of Information 'Elsewhere in the Interim Financial Report'</i>			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations - <i>Changes in Methods of Disposal</i>			✓
PFRS 7	Financial Instruments: Disclosures - <i>Servicing Contracts</i>			✓
PFRS 7	Financial Instruments: <i>Applicability of the amendments to PFRS 7 to condensed interim financial statements</i>			✓

		Adopted	Not Adopted	Not Applicable
Annual Improvements to PFRSs (2014-2016 Cycle)				
PFRS 12	<i>Clarification of the Scope of the Standard</i>	NOT EARLY ADOPTED		
PAS 28	<i>Measuring an Associate or Joint Venture at Fair Value</i>	NOT EARLY ADOPTED		

^aThe effective date of this amendment was deferred until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

INTEGRATED MICRO-ELECTRONICS, INC
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2017
(in U.S. Dollars)

Unappropriated retained earnings, as adjusted for dividend distribution, beginning		\$16,175,870
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Add: Net income actually earned/realized during the year

Net income during the year closed to Retained Earnings	7,264,917	
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Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	0	

Subtotal	<u>7,264,917</u>	
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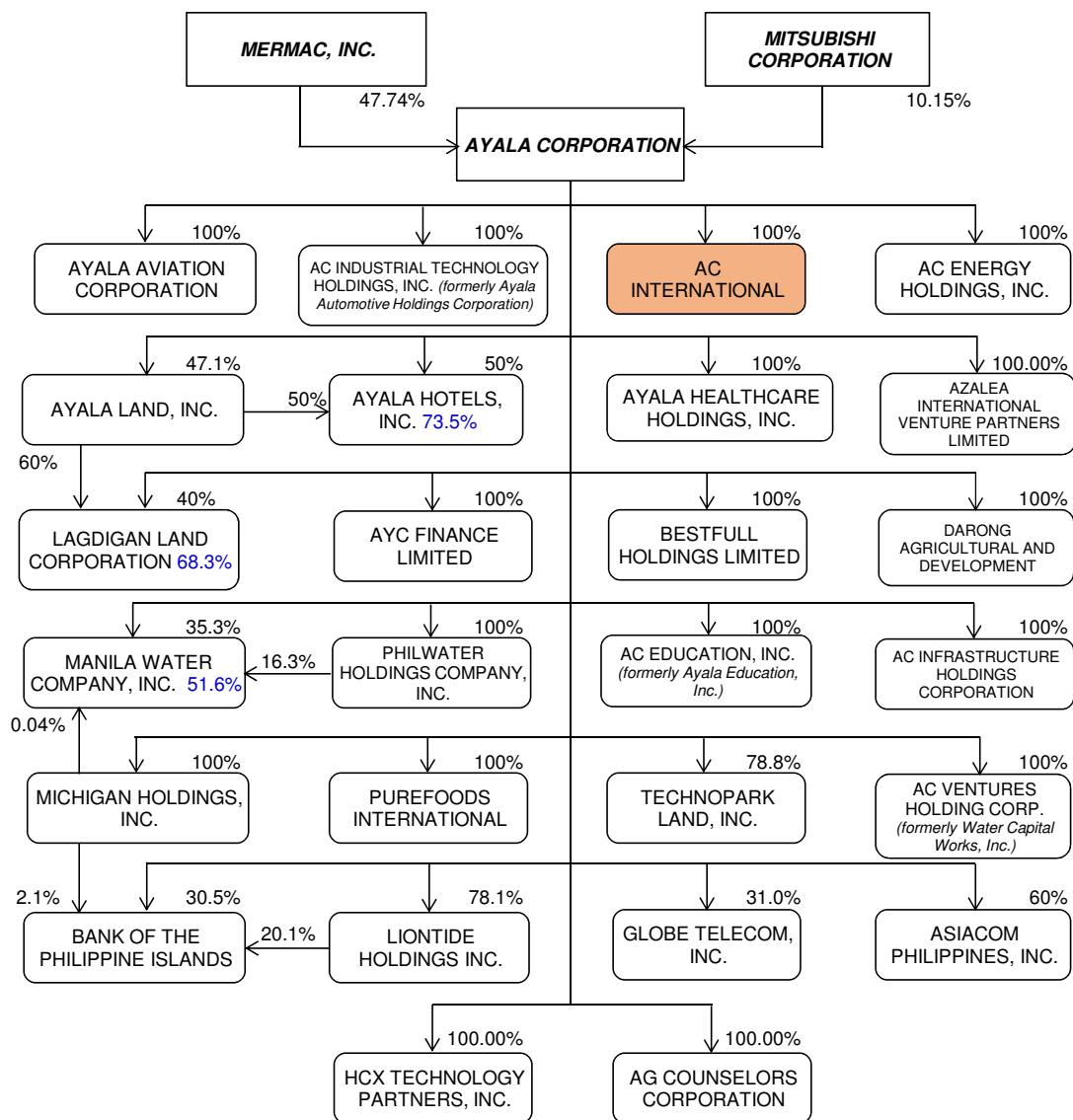
Net income actually earned during the year		7,264,917
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Add (less):

Dividend declarations during the year	(8,434,601)	(8,434,601)
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TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		\$15,006,186
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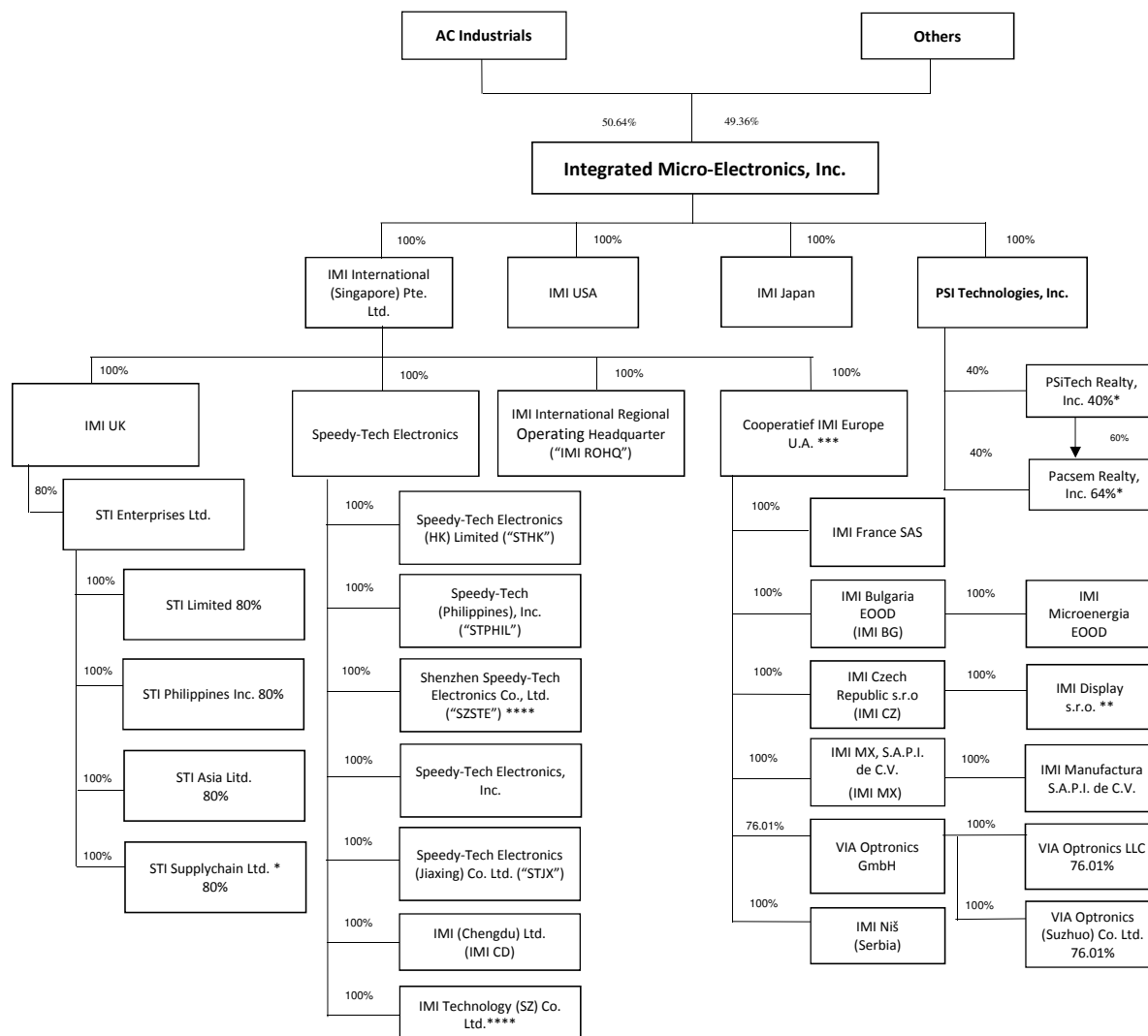
**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN
THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
As of December 31, 2017**



Legend:

% of ownership appearing on top of the box - direct economic % of ownership
 % of ownership appearing inside the box - effective % of economic ownership

Integrated Micro-Electronics, Inc. as of December 2017



* In the process of liquidation.

** No active operations.

*** Previously under Monarch Elite Ltd. In June 2017, Monarch agreed to sell its net target assets and transfer its membership rights to IMI Singapore. Monarch is in the process of liquidation.

**** New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. SZSTE being sold to a third party.

INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES
FINANCIAL RATIOS
December 31, 2017 and 2016

Ratios	Formula	Dec 31, 2017	Dec 31, 2016 (As Restated)
(i) Current ratio	Current assets / Current Liabilities	1.28	1.51
(ii) Quick ratio	Current assets less inventories and other current assets/Current liabilities	0.78	1.05
(iii) Debt/Equity ratio	Bank debts / Equity attributable to parent	1.08	0.74
(iv) Asset to Equity ratio	Total Assets / Equity attributable to parent	3.37	2.70
(v) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	7.05	9.89
(vi) Profitability ratios			
GP margin	Gross Profit / Revenues	11.9%	12.0%
Net profit margin	Net Income after Tax / Revenues	3.1%	3.3%
EBITDA margin	EBITDA / Revenues	6.4%	7.7%
Return on assets	Net Income after Tax / Total Asset	3.7%	4.4%
Return on equity	Net Income after Tax / Average equity attributable to parent	13.3%	12.0%
Return on common equity	Net Income after Tax / Average common equity attributable to parent	13.3%	12.0%

(in US\$'000)

	Dec 31, 2017	Dec 31, 2016 (As Restated)
Current Assets	580,412	406,975
Current Liabilities	452,349	270,091
Total Assets	921,352	639,128
Bank Debts	295,059	174,187
Equity attributable to parent	273,739	236,606
Average equity attributable to parent	255,173	234,425
Average common equity attributable to parent	255,173	234,425
Revenues	1,090,588	842,966
Gross Profit	129,599	101,309
Net income attributable to equity holders of the parent	34,002	28,116
Earnings before interest and taxes	48,640	38,413
Interest expense	6,901	3,884
EBITDA	70,342	64,967

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2017
(in U.S. Dollars)

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Accounts Payable - Trade		
Speedy-Tech Electronics Ltd.	12,073	3,639
IMI USA	26,128	45,178
Accounts Payable - Nontrade		
Speedy-Tech Electronics Ltd.	191,530	2,387
IMI USA	311,172	274,919
IMI International ROHQ	609,490	646,668
IMI International (Singapore) Pte Ltd.	58,352	-
IMI Japan	142,315	-
Due To		
Speedy-Tech Electronics Ltd.	1,245,590	1,695,775
PSi Technologies Inc.	98,735	101,828
IMI Japan	461,881	501,959
IMI USA	33,555	-
IMI International ROHQ	170,271	-
Monarch and EPIQ Subsidiaries	8,570	26,598
Total	3,369,663	3,298,951

Integrated Microelectronics, Inc. and Subsidiaries

Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

December 31, 2017

(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Balance at end of period
Accounts receivable -trade						
Monarch and EPIQ Subsidiaries	106,597	356,729	106,597		356,729	356,729
STEL Group		161,260			161,260	161,260
PSi Technologies Inc.		104,915			104,915	104,915
Accounts receivable -nontrade					-	-
STEL Group	191,271		100,066		91,205	91,205
Monarch and EPIQ Subsidiaries	836,477	3,941,542	836,477		3,941,542	3,941,542
PSi Technologies Inc.	16,722,133	9,557,320			26,279,453	26,279,453
IMI International (Singapore) Pte Ltd.	654,277	1,087,005			1,741,283	1,741,283
IMI Japan	992,531	10,158			1,002,688	1,002,688
STI	-	22,298			22,298	22,298
IMI International ROHQ	24,924	12,778	24,924		12,778	12,778
IMI USA	11,963	15,398	11,963		15,398	15,398
Due From					-	-
Monarch and EPIQ Subsidiaries	23,157,086	14,827,091			37,984,178	37,984,178
IMI International (Singapore) Pte Ltd.	810,247	51,011,796			51,822,042	51,822,042
IMI USA	250,000				250,000	250,000
STI	-	3,276,733			3,276,733	3,276,733
IMI International ROHQ	290		290		-	-
Total	43,757,795	84,385,025	1,080,316	-	127,062,504	127,062,504