



## 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 7, 2017 at 9:00 o'clock in the morning** with the following

### A G E N D A<sup>1</sup>

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. 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
5. 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
6. Election of Directors (including the Independent Directors)
7. Election of External Auditor and Fixing of its Remuneration
8. Consideration of Such Other Business as May Properly Come Before the Meeting
9. Adjournment

Only stockholders of record at the close of business on **February 6, 2017** are entitled to notice of, and to vote at, this meeting.

This notice supersedes the notice filed on January 23, 2017 with the Securities and Exchange Commission and the Philippine Stock Exchange.

Makati City, February 15, 2017.

**JOANNE M. LIM**  
Assistant Corporate Secretary

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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 **March 29, 2017** 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 **March 31, 2017** at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

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<sup>1</sup> 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.

The following rules of conduct and procedures will be adopted for the meeting:

- (i) The polls are open for the stockholders to cast their votes either manually or electronically.
- (ii) A stockholder may vote manually using the ballot provided to him upon registration and placing the voted ballot in the ballot boxes located at the registration table and inside the Ballroom.
- (iii) A stockholder may vote electronically using any of the computers at the station for electronic voting outside the Ballroom. The paper ballot and the website platform for electronic voting set forth the proposed resolutions for consideration by the stockholders and each proposed resolution would be shown on the screen in front of the Ballroom as it is taken up at the meeting.
- (iv) Each outstanding share of stock entitles the registered holder to one vote.
- (v) In general, the stockholders act by the affirmative vote of stockholders representing at least a majority of the outstanding capital stock present at the meeting.
- (vi) The election of the directors shall be by plurality of votes. Every stockholder shall be entitled to cumulate his votes.
- (vii) The stockholders may cast their votes anytime during the meeting.
- (viii) All votes received shall be tabulated by the Office of the Corporate Secretary, and the results of the tabulation shall be validated by SyCip Gorres Velayo and Co.
- (ix) During the meeting, as the stockholders take up an item on the Agenda, the Corporate Secretary will report the votes already received and tabulated on that item.

### Approval of minutes of previous meeting

The minutes of the meeting held on April 8, 2016 are posted at the company website, [www.global-imi.com](http://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, 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 2016 and the outlook for 2017. The financial statements as of December 31, 2016 (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 Decrease of Authorized Capital Stock from PhP3.75Bn to PhP2.45Bn and the corresponding Amendment of the Seventh Article of the Articles of Incorporation

Approval by the stockholders will be sought to decrease the authorized capital stock from PhP3.75Bn to PhP2.45Bn through the retirement of the 1.3Bn preferred shares which had been redeemed in 2015 and to amend the Seventh Article of the Articles of Incorporation to reflect such decrease. The Board approved the decrease and the corresponding amendment during its meeting on February 15, 2017.

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

Approval of the Amendment of the Second Article of the Articles of Incorporation to include in the primary purpose the production, assembly or manufacture of non-electronic products or parts, components or materials of non-electronic products.

Approval by the stockholders will be sought to include in the primary purpose of the Company the production, assembly or manufacture of non-electronic products or parts, components, or materials of non-electronic products. The Board approved the amendment during its meeting on February 15, 2017.

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

Approval of the Amendment of the Seventh Article of the Articles of Incorporation to add re-issuability to the features of the preferred shares.

Approval by the stockholders will be sought to give the Company funding flexibility for its operations and projects in the future. The Board approved the amendment during its meeting on February 15, 2017.

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 24, 2017. 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 whole 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 appointment 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 appointment 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 present and vote all shares registered in his/her/its name at the annual meeting of stockholders of the Company on April 7, 2017 and at any of the adjournments thereof for the purpose of acting on the following matters:

- |   |   |
|---|---|
| <p>1. Approval of minutes of previous meeting.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>2. Approval of Annual Report.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>3. 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.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>4. Approval of the amendment to the Second Article of the Articles of Incorporation to include in the primary purpose the production, assembly or manufacture of non-electronic products or parts, components or materials of non-electronic products.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>5. Approval of the amendment to the Seventh Article of the Articles of Incorporation to add re-issuability to the features of the preferred shares.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> | <p>7. Election of SyCip Gorres Velayo &amp; Co. as the external auditor and fixing of its remuneration.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>8. At his/her discretion, the proxy named above is authorized to vote upon such other matters as may properly come before the meeting.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No</p> |
|---|---|

\_\_\_\_\_  
 PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_  
 SIGNATURE OF STOCKHOLDER/  
 AUTHORIZED SIGNATORY

6. Election of Directors	No. of Votes	
Jaime Augusto Zobel de Ayala	_____	
Fernando Zobel de Ayala	_____	
Arthur R. Tan	_____	
Gilles Bernard	_____	
Jose Ignacio A. Carlos	_____	
Edgar O. Chua	_____	
Alelie T. Funcell	_____	
Delfin L. Lazaro	_____	
Jose Teodoro K. Limcaoco	_____	
Hiroshi Nishimura	_____	
Rafael Ma. C. Romualdez	_____	

\_\_\_\_\_  
 DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **MARCH 29, 2017**, 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 7, 2017  
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 17, 2017

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	1,867,293,315	₱1,867,293,315.00

b. Debt Securities - None

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

Yes                       No

1,565,636,697 common shares are listed with the Philippine Stock Exchange ("PSE"), including 15,892,124 treasury shares.

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## 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 7, 2017
- 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 17, 2017

### **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 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.

Stockholders who shall vote against the Proposed Amendment to the Seventh Article of the Articles of Incorporation of the Company to add re-issuability to the features of the preferred shares, shall be entitled to exercise their right of appraisal by making a written demand on the Company within thirty (30) days after April 7, 2017 for payment of the fair value of his share *provided*, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If such Proposed Amendment is implemented, the Company shall pay to the dissenting shareholders, upon surrender of the stock certificate/s, the fair value of the shares as of April 6, 2017, excluding any appreciation or depreciation in anticipation of such corporate action. If the fair value of the shares cannot be agreed upon, the provisions

of Section 82 of the Corporation Code shall be complied with. Notwithstanding the foregoing, no payment shall be made unless the Company has unrestricted retained earnings to cover such payment.

**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, 2017:** 1,867,293,315 Common shares

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

b. All **stockholders of record** as of February 6, 2017 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, 2017

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	AYC Holdings, Ltd. <sup>1</sup> 33/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd. <sup>2</sup>	BVI	945,537,373	50.6368%

<sup>1</sup> AYC Holdings, Ltd. (AYC) is a stockholder of the Company.

<sup>2</sup> The Board of Directors of AYC has the power to decide how AYC’s shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

Common	PCD Nominee Corporation (Filipino) <sup>3</sup> 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 <sup>4</sup>	Filipino	245,525,281	13.1487%
Common	PCD Nominee Corporation (Filipino) <sup>3</sup> 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	Resins, Inc. <sup>5</sup>	Filipino	239,412,304	12.8214%
Common	EPIQ NV <sup>6</sup> Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV <sup>7</sup>	Belgian	200,000,000	10.7107%
Common	PCD Nominee Corporation (Non-Filipino) <sup>3</sup> 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 <sup>4</sup>	Various Non-Filipino	125,564,126	6.7244%

(ii) Security ownership of directors and management as of January 31, 2017.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
<i>Directors</i>				
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	115 (direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	115 (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%
<i>CEO and Most Highly Compensated Officers</i>				
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	3,479,425 (direct & indirect)	Filipino	0.1863%
Common	Jaime G. Sanchez	420,895 (indirect)	Filipino	0.0225%
Common	Jerome S. Tan	3,241,033 (indirect)	Singaporean	0.1736%

<sup>3</sup> The PCD is not related to the Company.

<sup>4</sup> 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. Aside from BPI Securities Corporation where the 239,412,304 shares of Resins, Inc. is lodged, there is no other PCD participant handling 5% or more of the outstanding voting shares of the Company.

<sup>5</sup> Resins, Inc. (Resins) is a customer of a participant of PCD. Resins is not related to the Company. 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.

<sup>6</sup> EPIQ NV is a stockholder of the Company.

<sup>7</sup> The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted.

<i>Other Executive Officers</i>					
Common	Anthony Raymond P. Rodriguez	397,561	(direct & indirect)	Filipino	0.0213%
Common	Solomon M. Hermosura	336,415	(direct & indirect)	Filipino	0.0180%
Common	Joanne M. Lim	0		Filipino	0.0000%
<b>All Directors and Officers as a group</b>		<b>29,930,416</b>			<b>1.6029%</b>

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, 2017 – 68.77%

**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 2016 is as follows:

<b>Directors</b>	<b>No. of Meetings Attended/Held<sup>8</sup></b>	<b>Percent Present</b>
Jaime Augusto Zobel de Ayala	6/6	100%
Fernando Zobel de Ayala	4/6	67%
Delfin L. Lazaro	4/6	67%
Jose Teodoro K. Limcaoco <sup>9</sup>	5/5	100%
Arthur R. Tan	6/6	100%
Gilles Bernard <sup>10</sup>	4/4	100%
Jose Ignacio A. Carlos	5/6	83%
Rafael Ma. C. Romualdez	6/6	100%
Delfin C. Gonzalez, Jr. <sup>9</sup>	1/1	100%
John Eric T. Francia <sup>10</sup>	2/2	100%
Hiroshi Nishimura	6/6	100%
Alelie T. Fucell	6/6	100%
Edgar O. Chua	6/6	100%

<sup>8</sup> In 2016 during the incumbency of the director.

<sup>9</sup> Mr. Gonzalez was replaced by Mr. Limcaoco on April 8, 2016.

<sup>10</sup> Mr. Francia was replaced by Mr. Bernard on June 23, 2016.

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	Alelie T. Funcell
Fernando Zobel de Ayala	Delfin L. Lazaro
Arthur R. Tan	Jose Teodoro K. Limcaoco
Gilles Bernard	Hiroshi Nishimura
Jose Ignacio A. Carlos	Rafael Ma. C. Romualdez
Edgar O. Chua	

Messrs. Edgar O. Chua and Hiroshi Nishimura, and Ms. Alelie T. Funcell are nominated as independent directors. Each nominee has accepted his or her nomination.

Mr. Marlowe R. Macatiag, a shareholder of the Company, formally nominated all the 11 candidates. Mr. Macatiag 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 (composed of Alelie T. Funcell, as Chairman, 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 and Ms. Funcell have served as directors of the Company for more than five years; Mr. Chua for three years; Mr.. Limcaoco for one year; and Mr. Bernard for less than one year.

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”).

The Company undertakes to submit to the SEC the certification on the qualifications and disqualifications of the independent directors within thirty (30) days after their election at the annual stockholders’ meeting.

(ii) Significant employees

The Company considers its human resources working as a team as a key element for its continued success. However, the Company has no employee who is not an executive officer and 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, 2016.

**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, 2017, AYC Holdings, Ltd., 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 2016 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**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary</b>	<b>Other Income</b>
Arthur R. Tan Chief Executive Officer			
Gilles Bernard President & Global Chief Operating Officer			
Linaro 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 2015	₱ 71.99M	₱ 32.44M
	Actual 2016	₱ 81.74M	₱ 33.93M
	Projected 2017	₱ 87.70M	₱ 35.12M
All officers as a group unnamed*	Actual 2015	₱ 476.85M	₱ 125.32M
	Actual 2016	₱ 473.48M	₱ 140.74M
	Projected 2017	₱ 491.88M	₱ 141.63M

\*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 functionalities, 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, and Mr. Arnel F. de Jesus is the Partner-in-Charge since audit year 2014.

**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 disclosure.

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 &amp; Audit-related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
2016	₱ 3.70M	₱ 0.35M	₱ 0.07M
2015	₱ 3.60M	₱ 0.73M	₱ 0.07M

SGV & Co. was engaged by the Company to audit its annual financial statements.

e. **Tax fees**

The Company engaged SGV & Co. to perform tax advisory services in 2016. The Company engaged SGV & Co. and Isla Lipana & Co. to perform tax advisory services in 2015.

f. **All other fees**

The Company engaged the services of SGV & Co. to perform the validation of votes during its 2016 and 2015 annual stockholders' meetings for ₱ 0.07M each year.

The Company's Audit Committee (composed of Edgar O. Chua as Chairman, 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**

There are no matters or actions to be taken up in the annual stockholders' meeting with respect to authorization or issuance of securities.

### **Item 10. Modification or exchange of securities**

Item 15 (*Amendment of Charter, By-laws or other documents*) below sets forth the proposed amendments to the Seventh Article of the Articles of Incorporation of the Company to decrease to the authorized capital stock of the Company from PhP3.75Bn to PhP2.45Bn through the retirement of the 1.3Bn preferred shares at PhP1 par value which had been redeemed in 2015; and to add re-issuability to the features of the preferred shares.

There are no matters or actions to be taken up in the meeting with respect to the issuance or authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

## **Item 11. Financial and other information**

The audited financial statements as of December 31, 2016, 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, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint ventures.

- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any material impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply.

The amendments are applied retrospectively and do not have any impact on the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report

unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### Standards and Interpretation Issued but not yet Effective

The Group will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

#### *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 15, *Revenue from Contracts with Customers*
- PFRS 9, *Financial Instruments*
- 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 2016 annual stockholders' meeting held on April 8, 2016 covering the following matters:
  - (i) Annual report of officers;
  - (ii) Election of the members of the Board of Directors, including the Independent Directors, and
  - (iii) Election of external auditor and fixing of its remuneration.
- b. Approval of the Annual Report of Management for the year ending December 31, 2016.

**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 15, 2017, the Board of Directors of the Company approved the followings amendments to the Company's 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.

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

**SECOND:** The purposes for which this Corporation is formed are:

**PRIMARY PURPOSE**

To undertake the production, assembly or manufacture of any and all types of electronic and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products, and in providing services related thereto and to the extent permitted by law, may either directly or indirectly, through its subsidiaries, affiliate organizations or through correspondent enterprises, engage and/or undertake the following and other activities related thereto: (As amended on 7 April 2017)

XXX

The approval by the stockholders of the amendments to the Second Article of the Articles of Incorporation of the Company will be sought to enable the Company to expand its operations, be more responsive to the needs of its customers and maintain its relevance in the industry, thereby creating more value for its stakeholders.

- b. In the Seventh Article, the decrease of the authorized capital stock from PhP3.75 billion to PhP2.45 billion through the retirement of the 1.3 billion preferred shares at PhP1 par value which have been redeemed in 2015; and
- c. Also in the Seventh Article, the addition of re-issuability to the features of the preferred shares.

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 Two Billion Four Hundred Fifty Million Pesos (P2,450,000,000.00), Philippine Currency, consisting of Two Billion Two Hundred Fifty Million (2,250,000,000) Common shares and Two Hundred Million (200,000,000) Preferred shares, both with par value of ONE PESO (P1.00) each. (As amended on April 7, 2017)

Any issuance of Common shares shall be exempt from the stockholders' pre-emptive rights.

The preferred shares shall have the following features, rights and privileges:

- a. With voting rights;
- b. Par value of PhP1.00 per share;
- c. Dividend rate shall be floating to be set and determined at the time of issue and every five years by the Board of Directors. The rate shall be equivalent to the 5-year Philippine Dealing System Treasury Reference Rate PM (PDST-R2) as displayed in the "PDEX" page (or such successor page) of Bloomberg (or such successor electronic service provider) two days prior to Dividend Rate Setting plus a spread of twenty five (25) basis points. Dividend will be paid quarterly.

Dividends payable to foreign shareholders shall be paid in the equivalent amount in US Dollars based on the exchange rate as of the record date set by the Board of Directors, less applicable withholding taxes.

- d. Cumulative in payment of current dividends as well as any unpaid back dividends on the shares;
- e. Non-convertible into common shares;
- f. Preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Corporation and in the payment of the dividend at the rate specified;
- g. Non-participating in any other or further dividends beyond that specifically payable on the shares;
- h. No pre-emptive rights to any issue of shares, common or preferred;
- i. Redeemable at the option of the Corporation at issue value after the 5-year issue anniversary of the shares and under such terms that the Board of

Directors may determine, in any case subject to the payment of all accrued and unpaid dividends due on the shares, and once redeemed, may be re-issued for a reasonable price fixed by the Board of Directors. (As amended on April 7, 2017).

For foreign shareholders, redemption shall be based on the total Peso value at the time of subscription and will be paid in the equivalent amount in US Dollars at the time of redemption.

The approval by the stockholders of the amendments to the Seventh Article of the Articles of Incorporation of the Company will be sought to reflect the retirement of the 1.3 Billion Preferred Shares which had been redeemed in 2015 and to give the Company funding flexibility for its operations and projects in the future. The decrease will be made in compliance with the SEC Rules Governing Redeemable and Treasury Shares which provides that in case of redeemable shares reacquired by the issuing Company, the same shall be considered retired and no longer issuable, unless otherwise provided in the Articles of Incorporation. The addition of the re-issuability feature would enable the Company to maintain its authorized capital stock even if it subsequently decides to reacquire or redeem its remaining preferred shares.

#### **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 amendments to the Second and Seventh Articles of the Company's 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 the March 9, 2017.

**INTEGRATED MICRO-ELECTRONICS, INC.**

by:   
**JOANNE M. LIM**  
Assistant 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, 2016.

**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, 57, 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 Ayala Education, Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc. 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 Holdings, Inc., Ayala Healthcare Holdings, Inc., LiveIt Investments Limited, AI North America, Inc., and AG Holdings Limited; Chairman of Harvard Business School Asia-Pacific Advisory Board; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010 to December 2015. 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. 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.

**Arthur R. Tan**, Filipino, 57, is 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 Vice Chairman 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, 59, has been a Director and the President of IMI since June 23, 2016, and the Global 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 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 13<sup>th</sup> University in 1976.

**Fernando Zobel de Ayala**, Filipino, 56, 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.; and Director of Bank of The Philippine Islands and Globe Telecom, Inc. He is the Chairman of AC International Finance Ltd., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises, Inc., AC Industrial Technology Holdings, Inc., Liontide Holdings, Inc., AC Energy Holdings, Inc., Ayala Healthcare Holdings, Inc. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice Chairman of Ceci Realty, Inc., Vesta Property Holdings, Inc., Aurora Properties, Inc., Columbus Holdings, Inc. Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; Director of LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula and Habitat for Humanity International; Member of the INSEAD East Asia Council, World Presidents' Organization, Habitat for Humanity International, Asia Philanthropy Circle, TATE Asia Pacific Acquisitions Committee and The Metropolitan Internal Council; 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, National Museum, Asia Society. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

**Jose Ignacio A. Carlos**, Filipino, 47, 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, 70, 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 Philwater Holdings Company, Inc. and Atlas Fertilizer & Chemicals Inc.; Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of AC Industrial Technology Holdings, Inc., Ayala International Holdings, Ltd., AYC Holdings, Inc., Bestfull Holdings Limited, and Probe Productions, Inc.; and Trustee of Insular Life Assurance Co., Ltd. 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, 54, has been a director of IMI since April 8, 2016. He also holds the following positions in publicly listed companies: Chief Finance 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, and Zapfam, Inc. He is the Chairman, President and CEO of Water Capital Works, Inc. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy Holdings, Inc., Ayala Healthcare Holdings, Inc., Ayala Aviation Corporation, Ayala Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., LICA Management Inc., and Just For Kids, 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, 53, 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, 60, has been an independent director of IMI since April 2014. He is the Chairman of Pilipinas Shell Petroleum Corporation, a publicly listed company; and currently in the advisory boards of Mitsubishi Motors & Coca-Cola FEMSA Philippines. He is also the Chairman of the Makati Business Club and trustee of various civic and business organizations including the National Competitiveness Council and the Trilateral Commission. He held senior positions outside the Philippines as Transport analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia, and various regional positions in Shell Oil Products East. 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, 61, 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, 64, 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.

### 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 Global Chief Operating Officer
** Jerome S. Tan	Senior Managing Director, Global Chief Financial Officer/ICT
** 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
Anthony Raymond P. Rodriguez	Assistant Vice President, Head of Treasury & Credit
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, 55, is a Senior Managing Director and the Global Chief Financial Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA. He graduated with B.A. in Economics from De La Salle University in 1982 and obtained an MBA from University of Virginia in 1987.

**Linardo Z. Lopez**, Filipino, 59, 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 Solectron and Flextronics in China. He finished a degree in Management and Industrial Engineering at Mapua Institute of Technology in 1978.

**Jaime G. Sanchez**, Filipino, 61, is a Vice President and the Deputy CFO, Group Controller and Compliance Officer of IMI. He has worked with different Ayala companies for more than thirty (30) years including twelve (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.

**Anthony Raymond P. Rodriguez**, Filipino, 49, is an Assistant Vice President and Head of Treasury and Credit of IMI since February 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional experience from Banco de Oro – EPCI Bank as Senior Dealer –FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing. He finished a degree in Industrial Engineering at University of Sto. Tomas in 1990 and obtained an MBA from De La Salle University in 1997.

**Solomon M. Hermosura**, Filipino, 54, 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, General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as Corporate Secretary and Group General Counsel of Ayala Land, Inc.; Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., and Ayala Foundation, Inc.; 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, 2003 to April 9, 2014 and of Integrated Micro-Electronics, Inc. from April 14, 2009 and April 12, 2012. 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, 34, 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., LiveIt Investments Limited, and other companies within the Ayala Group to which she also provides other legal services. She is a 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 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 <sup>11</sup>	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 (₱40.0 billion), an increase of 4 percent year-over-year. Excluding acquisition, revenues went up by 1 percent driven by Europe and Mexico operations reporting combined revenues of \$308.0 million or 15 percent 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 percent from last year. Philippines’s electronics services operations

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<sup>11</sup> 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 \$221.0 million, 2 percent lower than last year, while PSi Technologies, IMI's semiconductor assembly and test subsidiary, posted \$33.0 million in revenues, down 2 percent 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 percent.

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 50 bps to 12 percent.

### **Net Income**

The Company accomplished a positive growth in operating income by 13%. Net income of \$28.1 million (¥ 1.3 billion) was slightly lower by 2 percent 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 \$52.3 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:

	<b>As of the Years Ended</b>		
	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
<b>Performance indicators</b>			
Liquidity:			
Current ratio <sup>a</sup>	1.51	1.54	1.73
Solvency:			
Debt-to-equity ratio <sup>b</sup>	0.74	0.48	0.41

	<b>For the Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating efficiency:			
Revenue growth <sup>c</sup>	4%	(4%)	13%
Profitability:			
Return on equity <sup>d</sup>	12%	12%	13%
Return on common equity <sup>e</sup>	12%	13%	15%
Return on assets <sup>f</sup>	4%	6%	5%
EBITDA margin <sup>12</sup>	8%	7%	6%

<sup>a</sup> *Current assets/current liabilities*

<sup>b</sup> *Bank debts/Equity attributable to equity holders of the Parent Company*

<sup>c</sup> *(Current year less previous year revenue)/Previous year revenue*

<sup>d</sup> *Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent*

<sup>e</sup> *Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent*

<sup>f</sup> *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.

<sup>12</sup> 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.

## 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)

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

### Balance Sheet items

(As of December 31, 2016 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

#### 17% increase in Loans and receivables - net (\$169.3M to \$198.2M)

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

#### 47% decrease in Other current assets (\$10.9M to 16.1M)

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

#### 336% increase in Intangible assets (\$2.4M to \$10.5M)

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:

	2015	2014
Compensation and benefits	21,554,903	\$23,263,280
Taxes	3,786,543	3,981,289
Professional fees	1,330,888	1,321,161
Light and water	1,141,476	1,232,481
Sales return	382,021	636,024
Subcontracting costs	157,262	339,918
Sales commission	130,622	144,034
Supplies	206,307	1,072,819

Interest payable	<b>769,072</b>	509,027
Others	<b>9,672,008</b>	7,006,563
	<b>\$39,131,102</b>	\$39,506,596

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)

100% 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% increase in Additional paid-in capital (\$82.5M to \$70.9)

Put option related to VIA debited against equity

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

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 <sup>a</sup>	1.54	1.73	1.53
Solvency:			
Debt-to-equity ratio <sup>b</sup>	0.48	0.41	0.48
	For the Years Ended		
	December 31		
	2015	2014	2013
Operating efficiency:			
Revenue growth <sup>c</sup>	(4%)	13%	13%
Profitability:			
Return on equity <sup>d</sup>	12%	13%	5%
Return on common equity <sup>e</sup>	13%	15%	6%
Return on assets <sup>f</sup>	6%	5%	2%
EBITDA margin <sup>13</sup>	7%	6%	5%

<sup>a</sup> Current assets/current liabilities

<sup>b</sup> Bank debts/Equity attributable to equity holders of the Parent Company

<sup>c</sup> (Current year less previous year revenue)/Previous year revenue

<sup>d</sup> Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent

<sup>e</sup> Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent

<sup>f</sup> Net income attributable to equity holders of the Parent Company/Total Assets

<sup>13</sup> 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.

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
	<u>\$39,506,596</u>	<u>\$50,363,345</u>

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.

## **2014 vs. 2013**

### **Revenues from Sales and Services**

The Company's 2014 revenues rose 13% to \$844.5 million from \$745.0 million in 2013, faster than the global EMS industry's estimated growth of 6.7%.

IMI China operations posted \$325.6 million revenues, up 17.5% from last year's primarily due to volume expansion in the telecommunications segment. The company benefitted from China's 4G rollout by way of increased demand for telecommunications infrastructure devices. The China operations accounted for 39% of IMI's total revenues.

The company's Europe and Mexico operations contributed 32% to the full year revenues. With the sustained expansion of the automotive business in IMI's factory in Bulgaria, revenues went up 14.4% to \$268.6 million year-over-year. This was driven by the steady growth rate of global automotive unit production at around 4% in 2014.

IMI's EMS operations in the Philippines recorded \$204.9 million in revenues, an 8.3% year-on-year growth bolstered by an increase in its storage device and automotive electronics businesses.

PSi Technologies Inc., IMI's subsidiary, posted \$44.9 million in revenues, up 4.3% year-over-year due to increased demand for power semiconductors.

The company's automotive electronics business now accounts for 38% of IMI's total revenues and grew 15% from last year. Besides automotive sector, the Company's telecommunications and computing sector also posted a double-digit growth. The 4G rollout in China contributed to a 31% growth in the telecommunications infrastructure segment of the Company and now accounts for 21% of the total revenues while the computing segment grew 30% from last year mainly from increased demand in its storage device business.

Europe remains to be the biggest market of the company's products, comprising 50% of global sales, followed by America at 25%.

### **Cost of Goods Sold and Services**

Cost of sales is higher by 11% mainly from increase in materials cost driven by growing turnkey businesses. Higher direct labor cost and ratio due to increase in labor-intensive consignment businesses in the Philippines.

### **Gross Profit and Gross Profit Margin**

The Company's operations generated gross profit of US\$93.9 million, higher year-on-year by 38% which is driven by higher revenues. Gross profit margin at 11.1% was higher by 252 bps from last year's 8.6% resulting from better margins across all sites driven by DM cost reductions and controlled overhead costs. The increase in consignment businesses generating higher margins for Philippines also contributed to the increase.

### **Operating Expenses**

The Company's operating expenses went up by US\$8.4 million or 15% due to increase in salaries and benefits, inventory provisions, software costs and restructuring costs

### **Net Income**

The Company generated US\$29.1 million net income, almost thrice that of last year's US\$10.5 million. Operating income up by US\$17.6 million, 4x that of last year's driven by improved profitability across all sites. The Company also recognized gain on sale from the sale of its Singapore property amounting to US\$14.3 million, offset by impairment of goodwill and write-off of available-for-sale financial assets aggregating to US\$8.9 million.

### **EBITDA**

EBITDA higher by US\$16.4 million or 45% driven by higher operating by US\$17.6 million, however, offset by foreign exchange impact by US\$1.4 million.

### **Financial Condition**

The company's cash position at the end of 2014 is robust at \$117.6 million, supported by a follow-on public offering that generated cash of PhP1.6 billion (US\$36 million) and the sale of IMI's Singapore property that brought in \$17.2 million. Current ratio and debt-to-equity ratio are 1.7:1 and 0.4:1, respectively.

### **Capital Expenditure**

For the full year 2014, the Company's capital expenditures amounted to US\$24.9 million which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions and ERP system upgrade. For 2015, the Company expects to spend US\$27.7 million for capital expenditures to be partially funded by proceeds from the follow-on offering, cash from operations and debt. The main components of these expenditures are new buildings and extensions, purchase of equipment for new projects, various

machineries restorations and strategic investments. These will ensure uninterrupted services and meeting demands of the Company's customers.

### 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, 2014	Dec 31, 2013	Dec 31, 2012
Liquidity:			
Current ratio <sup>a</sup>	1.73	1.53	1.56
Solvency:			
Debt-to-equity ratio <sup>b</sup>	0.41	0.48	0.47
	For the years ended December 31		
	2014	2013	2012
Operating efficiency:			
Revenue growth <sup>c</sup>	13%	13%	15%
Profitability:			
Return on equity <sup>d</sup>	13%	5%	3%
Return on common equity <sup>e</sup>	15%	6%	3%
Return on assets <sup>f</sup>	5%	2%	1%
EBITDA margin <sup>14</sup>	6%	5%	5%

<sup>a</sup> Current assets/current liabilities

<sup>b</sup> Bank debts/Equity attributable to equity holders of the Parent Company

<sup>c</sup> (Current year less previous year revenue)/Previous year revenue

<sup>d</sup> Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent

<sup>e</sup> Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent

<sup>f</sup> 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.

<sup>14</sup> EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments 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.

- (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, 2014 versus December 31, 2013)

#### 13% growth in Revenues from Sales and Services (\$745.0M to \$844.5M)

Increase was mainly due to the Company's automotive business expansion in Europe, Mexico and Philippines (↑US\$42.3 million), increased demand in the telecom infrastructure business in China (↑US\$41.9 million) and growth in computing business in the Philippines (↑US\$11.3 million).

#### 11% increase in Cost of Goods Sold and Services (\$677.1M to \$750.5M)

The increase in Cost of Goods Sold and Services was relative to the upsurge in revenues of turnkey businesses resulting to higher direct material costs, increase in labor cost ratio due to expansion of labor-intensive projects and increase in labor rate and increase in fixed overhead costs to cope with the business expansions.

#### 15% increase in Operating Expenses (\$55.8M to \$64.2M)

The increase is attributable to increase in salaries and benefits, inventory provisions, software costs and restructuring costs.

#### 246% increase in net finance and other income (\$1.6M to \$5.5M)

Gain on sale of property (+\$14.3M), offset by impairment of goodwill (-\$7.5M), forex impact in EU/MX and China entities (-\$1.4M) and write-off of available-for-sale financial assets (-\$1.4M).

#### 37% increase in provision for income tax (\$4.5M to \$6.2M)

Increase in current tax due to higher income tax base resulting from higher revenues and better margins (+\$3.5), offset by benefit from recognition of deferred tax asset on various allowance provisions (-\$1.8M)

#### 90% decrease in net loss attributable to Noncontrolling Interest (-\$1.3M to -\$0.1 million)

Relative to improved profitability of PSi.

## Balance Sheet items

(December 31, 2014 versus December 31, 2013)

### 140% increase in Cash and cash equivalents (\$49.0M to \$117.6M)

Follow-on offering generated cash of \$36.0M and sale of Singapore property brought in \$17.2M; capital expenditures at \$25.9 million; net availment of bank loans at \$5.1 million

### 9% increase in Loans and receivables (\$178.5M to \$195.1M)

Increase is relevant to increase in revenues across major operating sites.

### 29% decrease in Other current assets (\$16.6M to \$11.9M)

Collection of VAT receivables in IMI MX (\$4.2M)

### 5% decrease in Property, plant and equipment (\$85.7M to \$81.7M)

Capital expenditures during the year +\$24.6M; Depreciation expense -\$20.9M; Net book value of disposed assets (-\$4.3M); Cumulative translation adjustments from EU entities (-\$3.4M)

### 14% decrease in Goodwill (\$54.4M to \$46.9M)

Full impairment of PSi goodwill (-\$7.5M)

### 18% decrease in Intangible assets (\$4.9M to \$4.0M)

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

### 72% decrease in Available-for-sale financial assets (\$1.9M to \$0.5M)

Write off of investments securities comprising of non-cumulative, convertible preferred shares and convertible notes.

### 169% increase in Deferred tax assets (\$0.6M to \$1.7M)

Deferred tax recognized on allowance provisions.

### 6% increase in Accounts payable and accrued expenses (\$171.1M to \$181.7M)

Mainly from increase in accrual for salaries and benefits.

The following table sets forth the Company's accrued compensation, benefits and expenses as of December 31, 2014 versus the year ended December 31, 2013:

	2014	2013
Compensation and benefits	\$24,691,621	\$15,233,977
Taxes	5,005,217	7,119,042
Subcontracting costs	2,204,049	2,558,819
Professional fees	2,311,496	1,406,671
Light and water	1,340,435	1,986,827
Sales return	1,233,490	513,823
Supplies	2,612,679	923,554
Sales commission	696,410	638,011
Interest payable	449,305	471,700
Others	9,818,643	9,750,509
	<u>\$50,363,345</u>	<u>40,602,933</u>

14% increase in Trust receipts and loans payable (\$45.7M to \$52.1M)

Net availment of IMI Philippines (\$5M) and STEL (\$10M) to fund working capital requirements of subsidiaries offset by settlement of BG and MX bank loans (-\$8.6M)

121% increase in Income tax payable (\$1.7M to \$3.7M)

Increase in tax liability driven by increased revenues and profitability.

7% decrease in Long-term debt (\$61.7M to \$57.3M)

Second installment payment of Cooperatief to EPIQ NV of EUR2M (-\$2.7M) related to the European acquisition; net availment of EU entities (\$+0.9M); FX impact and cumulative translation adjustments (-\$2.6M)

54% decrease in Deferred tax liabilities (\$3.1M to \$1.4M)

Reversals of deferred tax liability to recognize deferred tax asset on allowance provisions.

12% decrease in Deferred revenue (\$1.7M to \$1.4M)

Amortization of deferred revenue of PSi representing advances from customers for facilities support services.

30% decrease in Pension liability (\$6.7M to \$4.7M)

Decrease in salary increase assumption.

24% decrease in Obligations under finance lease (\$3.0M to \$2.3M)

Payments of finance lease of IMI BG on its production machinery and equipment.

16% increase in Capital stock-common (\$30.0M to \$34.9M)

Issuance of 215,000,000 shares through follow-on offering

46% increase in Subscribed capital stock (\$1.2M to \$1.8M)

Subscriptions to 31.8 million shares under new Employee Stock Ownership (ESOWN) grants

57% increase in Additional paid-in capital (\$51.3M to \$80.6M)

APIC in excess of par for the 215M newly issued shares from follow-on offering (+\$31M); APIC in excess of par on the new ESOWN grants (+\$3.5M); Cost of share-based payments (+\$0.2M); acquisition of minority interest charged to APIC (-\$3.4M); follow-on offering capitalized transaction cost (-\$1.5M)

35% increase in Subscriptions receivable (\$9.6M to \$12.9M)

Subscriptions to new ESOWN grants (31.8 million shares)

31% increase in Retained earning-unappropriated (\$83.5M to \$109.5M)

Net income for the year at \$29.1M; dividends declared on common and preferred -\$3.1M

651% decrease in Cumulative translation adjustments (-\$1.4M to -\$10.7M)

Arising from translation of management accounts of Europe denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of USD against subsidiaries' local currencies with regard to its net assets.

38% increase in Other comprehensive income (-\$9.0M to -\$5.6M)

Change in salary increase assumption

108% increase in Noncontrolling interest (-\$2.6M to -\$0.2M)

Acquisition of the remaining noncontrolling interest of PSi (16.75%) and Microenergia (30%)

## 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 is 50.64% owned by AYC Holdings, Ltd., a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation.

IMI was listed by way of introduction in the PSE on January 21, 2010. Subsequently, 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.

IMI Singapore is an investment and holding entity 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 IMI Singapore.

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, 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.

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 2015 and 2016.

	Philippine Stock Exchange Prices in PhP/share					
	<u>High</u>		<u>Low</u>		<u>Close</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
First Quarter	5.91	7.00	4.85	5.39	5.81	6.53
Second Quarter	6.00	6.57	5.40	5.75	5.63	5.82
Third Quarter	7.40	6.14	5.16	5.16	6.10	5.70
Fourth Quarter	6.23	6.23	5.79	5.61	6.08	5.64

The market capitalization of the Company's common shares as of December 31, 2016, based on the closing price of ₱ 6.08/share, was approximately ₱ 11.35 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 8, 2017, is ₱6.90 per share.

### B) *Holders*

There are approximately 337 registered common stockholders as of January 31, 2017. The following are the top 20 registered holders of common shares of the Company.

	<b>Stockholder Name</b>	<b>No. of Common Shares</b>	<b>Percentage of Common Shares</b>
1.	AYC Holdings, Ltd.	945,537,373	50.6368%
2.	PCD Nominee Corporation (Filipino)	484,937,585	25.9700%
3.	EPIQ NV	200,000,000	10.7107%
4.	PDC Nominee Corporation (Non-Filipino)	125,564,126	6.7244%
5.	2014 ESOWN Subscription	31,663,496	1.6957%
6.	2007 ESOWN Subscription	30,372,413	1.6265%
7.	2009 ESOWN Subscription	17,982,534	0.9630%
8.	2015 ESOWN Subscription	10,393,394	0.5566%
9.	SIIX Corporation	6,581,622	0.3525%
10.	Josef Pfister	1,415,860	0.0758%
11.	Ayala Corporation	1,380,492	0.0739%
12.	Rafael Nestor Velez Mantaring	1,057,930	0.0567%
13.	Richard D. Bell	910,572	0.0488%
14.	Helmut Baumgart	865,448	0.0463%
15.	Meneleo J. Carlos, Jr.	805,288	0.0431%
16.	Timothy Patterson	700,000	0.0375%
17.	Lucrecio B. Mendoza	540,245	0.0289%
18.	Rolando Maizo Vicente	402,644	0.0216%
19.	Allen B. Paniagua	357,726	0.0192%
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

***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***

The following shares were subscribed by the Company's executives as a result of their subscription to the stock ownership (ESOWN) plans:

<u>Year</u>	<u>No. of Shares*</u>
2016	0
2015	9,743,144

*\*net of cancelled shares*

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***

- (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) There were no deviations from the Company's Revised Manual of Corporate Governance. 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



**Integrated Micro-Electronics, Inc.**

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

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

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

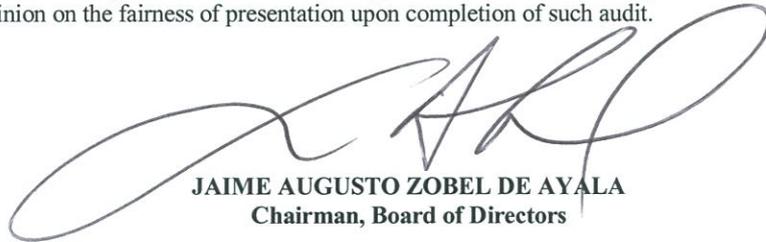
The management of Integrated Micro-Electronics, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

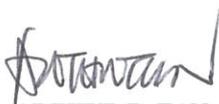
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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 auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**JAIME AUGUSTO ZOBEL DE AYALA**  
Chairman, Board of Directors

  
**ARTHUR R. TAN**  
Chief Executive Officer

  
**JEROME S. TAN**  
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 15 2017 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

<u>Name</u>	<u>Passport No.</u>	<u>Date &amp; Place of Issue</u>
Jaime Augusto Zobel de Ayala	EC4856934	August 4, 2015 – Manila
Arthur R. Tan	EB9832108	December 17, 2013 – Manila
Jerome S. Tan	E5376564C	February 11, 2015 - Singapore

Doc. No. 228 ;  
Page No. 47 ;  
Book No. 44 ;  
Series of 2017.



  
**JOANNE M. LIM**  
Notary Public – Makati City  
Appt. No. 461 until December 31, 2017  
Attorney's Roll No. 55362  
PTR No. 5913556MD; 01/04/2017; Makati City  
IBP No. 1060733; 01/09/2017; Quezon City Chapter  
MCLE Compliance No. V – 0014302; 02/16/2016  
27<sup>th</sup> Floor, Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City  
Tel. No.: 908-3959; Fax No.: 848-5327

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

# Integrated Micro-Electronics, Inc. and Subsidiaries

Consolidated Financial Statements  
December 31, 2016 and 2015  
and Years Ended December 31, 2016, 2015  
and 2014

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, 2016 and 2015, 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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.

#### *Valuation of the put options arising from the acquisition of VIA Optronics GmbH (VIA)*

In 2016, the Group acquired 76.01% interest in VIA. The terms of the acquisition included put options that granted the non-controlling shareholder the right to sell his shares in VIA to the Group. The put options resulted in a financial liability of \$11.3 million as of December 31, 2016. 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 of VIA, discount rate, forecasted interest rate and the probability of trigger events occurring. Details of the transaction and the valuation of the put options are disclosed in Notes 2 and 30 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, discount rate, forecasted interest rate and probability of trigger events occurring. We evaluated the revenue growth rate by comparing against VIA's recent financial performance, the Group's business plan for VIA and industry outlook. 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 inquired with management its basis for the probability of trigger events occurring.

#### *Recoverability of Goodwill*

As of December 31, 2016, goodwill acquired by the Group through business combinations amounted to \$96.0 million, which is considered significant to the consolidated financial statements. The goodwill acquired through business combinations had been allocated to the following cash-generating units (CGUs): Integrated Micro-Electronics, Inc., Speedy-Tech Electronics, Ltd., IMI Czech Republic s.r.o. and VIA. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. In addition, management's assessment process requires significant judgement and is based on assumptions, specifically revenue growth rate, gross margin and discount rate. Management's disclosures on 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 reviewing 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 most 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.

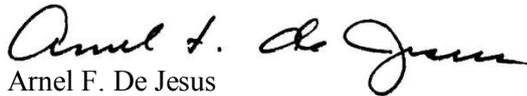
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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 Arnel F. de Jesus.

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-4 (Group A),  
May 1, 2016, valid until May 1, 2019

Tax Identification No. 152-884-385

BIR Accreditation No. 08-001998-15-2015,  
June 26, 2015, valid until June 25, 2018

PTR No. 5908688, January 3, 2017, Makati City

February 15, 2017



**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	<b>\$86,548,735</b>	\$101,532,409
Receivables - net (Note 6)	<b>198,202,754</b>	169,291,581
Inventories (Note 7)	<b>106,132,529</b>	88,255,209
Other current assets (Note 8)	<b>16,090,797</b>	10,935,700
Total Current Assets	<b>406,974,815</b>	370,014,899
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 9)	<b>117,405,004</b>	93,101,971
Goodwill (Note 10)	<b>96,044,622</b>	46,876,213
Intangible assets (Note 11)	<b>10,469,078</b>	2,398,461
Available-for-sale financial assets (Notes 12 and 30)	<b>740,949</b>	583,510
Deferred tax assets (Note 23)	<b>1,552,362</b>	1,527,537
Other noncurrent assets (Note 13)	<b>2,722,057</b>	2,032,068
Total Noncurrent Assets	<b>228,934,072</b>	146,519,760
	<b>\$635,908,887</b>	\$516,534,659
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 14)	<b>\$195,675,304</b>	\$152,817,225
Trust receipts and loans payable (Note 15)	<b>51,445,169</b>	42,297,356
Financial liabilities on put options (Notes 2 and 30)	<b>11,334,282</b>	-
Current portion of long-term debt (Note 16)	<b>8,185,053</b>	42,953,009
Income tax payable	<b>3,451,416</b>	2,533,995
Total Current Liabilities	<b>270,091,224</b>	240,601,585
<b>Noncurrent Liabilities</b>		
Noncurrent portion of:		
Long-term debt (Notes 16 and 30)	<b>121,144,043</b>	34,648,756
Advances from customers (Note 17)	<b>1,137,865</b>	1,123,343
Net retirement liabilities (Note 25)	<b>4,091,990</b>	5,791,612
Deferred tax liabilities (Note 23)	<b>1,275,651</b>	1,358,303
Accrued rent (Note 28)	<b>84,731</b>	454,878
Other noncurrent liabilities	<b>216,253</b>	118,418
Total Noncurrent Liabilities	<b>127,950,533</b>	43,495,310
Total Liabilities	<b>398,041,757</b>	284,096,895

(Forward)



	December 31	
	2016	2015
<b>EQUITY</b>		
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock - common (Note 18)	\$34,935,709	\$34,933,728
Subscribed capital stock (Note 18)	1,857,440	1,907,584
Additional paid-in capital (Note 18)	70,927,567	82,527,542
Subscriptions receivable (Note 18)	(12,334,692)	(13,131,734)
Retained earnings unappropriated	168,932,158	149,437,014
Treasury stock (Note 18)	(1,012,586)	(1,012,586)
Reserve for fluctuation on available-for-sale financial assets	368,531	251,030
Cumulative translation adjustment	(20,639,608)	(16,544,691)
Other comprehensive loss	(6,428,260)	(6,295,673)
Other reserves	-	170,714
	<b>236,606,259</b>	<b>232,242,928</b>
<b>Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries</b>		
	<b>1,260,871</b>	<b>194,836</b>
Total Equity	<b>237,867,130</b>	<b>232,437,764</b>
	<b>\$635,908,887</b>	<b>\$516,534,659</b>

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2016	2015	2014
<b>REVENUES</b>			
Sale of goods	\$774,643,182	\$750,514,863	\$746,158,727
Sale of services	68,323,242	63,849,241	98,315,342
	<b>842,966,424</b>	814,364,104	844,474,069
<b>COST OF SALES</b> (Note 19)			
Cost of goods sold	680,844,830	663,659,753	664,495,465
Cost of services	60,812,213	56,672,880	86,045,599
	<b>741,657,043</b>	720,332,633	750,541,064
<b>GROSS PROFIT</b>	<b>101,309,381</b>	94,031,471	93,933,005
<b>OPERATING EXPENSES</b> (Note 20)	<b>(58,366,442)</b>	(56,098,525)	(64,232,479)
<b>OTHERS – Net</b>			
Interest expense and bank charges (Note 22)	(3,884,454)	(2,716,385)	(2,814,803)
Foreign exchange gains (losses) - net	(2,437,818)	(2,419,021)	36,401
Gains on insurance claims (Notes 7 and 9)	360,895	–	334,695
Interest income (Note 5)	294,035	658,003	196,271
Gain (loss) on sale and retirement of property, plant and equipment - net (Note 9)	(143,034)	165,776	14,506,946
Mark-to-market loss on put options (Note 2)	(40,785)	–	–
Impairment loss on goodwill (Note 10)	–	–	(7,478,980)
Miscellaneous income (loss) – net (Note 21)	(2,269,225)	1,054,201	710,235
	<b>(8,120,386)</b>	(3,257,426)	5,490,765
<b>INCOME BEFORE INCOME TAX</b>	<b>34,822,553</b>	34,675,520	35,191,291
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 23)			
Current	6,942,950	5,731,204	8,927,759
Deferred	(136,306)	174,204	(2,727,851)
	<b>6,806,644</b>	5,905,408	6,199,908
<b>NET INCOME</b>	<b>\$28,015,909</b>	\$28,770,112	\$28,991,383
<b>Net Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	\$28,115,891	\$28,789,740	\$29,117,024
Non-controlling interests	(99,982)	(19,628)	(125,641)
	<b>\$28,015,909</b>	\$28,770,112	\$28,991,383
<b>Earnings Per Share</b> (Note 24)			
Basic and diluted	<b>\$0.015</b>	\$0.015	\$0.017

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2016	2015	2014
<b>NET INCOME FOR THE YEAR</b>	<b>\$28,015,909</b>	\$28,770,112	\$28,991,383
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Other comprehensive income (loss) to be reclassified into profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	(4,094,917)	(5,835,345)	(9,284,204)
Fair value changes on available-for-sale financial assets	117,501	66,911	(5,482)
	<b>(3,977,416)</b>	(5,768,434)	(9,289,686)
Other comprehensive income (loss) not to be reclassified into profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 25)	(132,587)	(722,109)	3,384,509
	<b>(4,110,003)</b>	(6,490,543)	(5,905,177)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$23,905,906</b>	\$22,279,569	\$23,086,206
<b>Total Comprehensive Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	<b>\$24,005,888</b>	\$22,299,197	\$23,211,847
Non-controlling interests	<b>(99,982)</b>	(19,628)	(125,641)
	<b>\$23,905,906</b>	\$22,279,569	\$23,086,206

*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, 2016, 2015 and 2014

Attributable to Equity Holders of the Parent Company

	Capital Stock - Common (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
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 26)	-	-	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 the acquisition of a subsidiary during the year (Note 2)	-	-	-	-	-	-	-	-	-	-	1,355,604	1,355,604
Acquisition of non-controlling interests (Note 2)	-	-	-	-	-	-	-	-	-	(170,714)	(189,587)	(360,301)
Cash dividends	-	-	-	-	(8,620,747)	-	-	-	-	-	-	(8,620,747)
	<b>34,935,709</b>	<b>1,857,440</b>	<b>70,927,567</b>	<b>(12,334,692)</b>	<b>140,816,267</b>	<b>(1,012,586)</b>	<b>251,030</b>	<b>(16,544,691)</b>	<b>(6,295,673)</b>	-	<b>1,360,853</b>	<b>213,961,224</b>
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
<b>Balances at December 31, 2016</b>	<b>\$34,935,709</b>	<b>\$1,857,440</b>	<b>\$70,927,567</b>	<b>(\$12,334,692)</b>	<b>\$168,932,158</b>	<b>(\$1,012,586)</b>	<b>\$368,531</b>	<b>(\$20,639,608)</b>	<b>(\$6,428,260)</b>	<b>\$-</b>	<b>\$1,260,871</b>	<b>\$237,867,130</b>



Attributable to Equity Holders of the Parent Company

	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
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 26)	-	-	222,366	913,925	(1,136,291)	-	-	-	-	-	-	-	-	-
Collections on subscriptions	-	-	-	460,634	460,634	-	-	-	-	-	-	-	-	460,634
Forfeitures during the year	-	-	(55,308)	(395,399)	450,707	-	-	-	-	-	-	-	-	-
Cost of share-based payments (Note 26)	-	-	-	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

Attributable to Equity Holders of the Parent Company

	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non- controlling Interests	Total
Balances at January 1, 2014	\$30,016,551	\$26,601,155	\$1,229,926	\$51,263,933	(\$9,590,746)	\$20,660,981	\$83,503,457	(\$1,012,585)	\$189,601	(\$1,425,142)	(\$8,958,073)	\$170,714	(\$2,604,272)	\$190,045,500
Issued shares during the year	4,860,065	-	(70,580)	31,131,655	-	-	-	-	-	-	-	-	-	35,921,140
Subscriptions during the year (Note 26)	-	-	708,590	3,479,175	(4,187,765)	-	-	-	-	-	-	-	-	-
Transaction costs on shares issuance	-	-	-	(1,502,981)	-	-	-	-	-	-	-	-	-	(1,502,981)
Cost of share-based payments (Note 26)	-	-	-	165,006	-	-	-	-	-	-	-	-	-	165,006
Accretion of subscriptions receivable	-	-	-	79,418	(79,418)	-	-	-	-	-	-	-	-	-
Collections on subscriptions	-	-	-	328,621	328,621	-	-	-	-	-	-	-	-	328,621
Forfeitures during the year	-	-	(70,298)	(552,226)	622,524	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests (Note 2)	-	-	-	(3,582,999)	-	-	-	-	-	-	-	-	2,944,377	(638,622)
Cash dividends	-	-	-	-	-	-	(3,139,204)	-	-	-	-	-	-	(3,139,204)
Acquisition of treasury stock	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)
	\$34,876,616	\$26,601,155	\$1,797,638	\$80,480,981	(\$12,906,784)	\$20,660,981	\$80,364,253	(\$1,012,586)	\$189,601	(\$1,425,142)	(\$8,958,073)	\$170,714	\$340,105	\$221,179,459
Net income (loss)	-	-	-	-	-	-	29,117,024	-	-	-	-	-	(125,641)	28,991,383
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(5,482)	(9,284,204)	3,384,509	-	-	(5,905,177)
Total comprehensive income (loss)	-	-	-	-	-	-	29,117,024	-	(5,482)	(9,284,204)	3,384,509	-	(125,641)	23,086,206
Balances at December 31, 2014	\$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

See accompanying Notes to Consolidated Financial Statements.



**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>\$34,822,553</b>	\$34,675,520	\$35,191,291
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	<b>22,472,246</b>	21,016,819	20,859,849
Interest expense (Note 22)	<b>3,297,733</b>	2,208,551	2,739,455
Amortization of intangible assets (Note 11)	<b>1,989,548</b>	2,231,851	2,120,434
Cost of share-based payments (Note 26)	<b>744,130</b>	1,528,035	165,006
Gain on insurance claims (Notes 7 and 9)	<b>(360,895)</b>	–	(334,695)
Interest income (Note 5)	<b>(294,035)</b>	(658,003)	(196,271)
Loss (gain) on sale and retirement of property, plant and equipment (Note 9)	<b>143,034</b>	(165,776)	(14,506,946)
Loss (gain) on derivative transactions (Note 31)	<b>113,455</b>	(225,162)	35,096
Unrealized foreign exchange losses (gains) - net	<b>(57,843)</b>	412,921	385,512
Impairment on goodwill (Note 10)	–	–	7,478,980
Impairment on available-for-sale financial assets (Note 12)	–	–	1,753,589
Write-off of available-for-sale financial assets (Note 12)	–	–	1,350,368
Operating income before working capital changes	<b>62,869,926</b>	61,024,756	57,041,668
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	<b>(10,639,358)</b>	18,436,043	(21,670,295)
Inventories	<b>(13,358,078)</b>	2,054,060	785,080
Other current assets	<b>(3,414,550)</b>	1,068,255	4,748,248
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>10,771,185</b>	(26,235,224)	7,529,186
Advances from third party	<b>6,538,462</b>	–	–
Advances from customers	<b>2,029,988</b>	(301,952)	(299,476)
Retirement liabilities	<b>(1,569,301)</b>	654,925	1,398,735
Accrued rent	<b>(370,147)</b>	(25,817)	37,668
Other noncurrent liabilities	<b>97,835</b>	(63,499)	(1,638)
Net cash generated from operations	<b>52,955,962</b>	56,611,547	49,569,176
Income tax paid	<b>(6,025,529)</b>	(6,848,877)	(6,925,623)
Interest paid	<b>(3,037,688)</b>	(2,148,829)	(2,761,850)
Interest received	<b>306,506</b>	667,492	288,192
Net cash provided by operating activities	<b>44,199,251</b>	48,281,333	40,169,895

(Forward)



	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Note 9)	<b>(\$48,344,218)</b>	(\$35,120,182)	(\$24,213,138)
Intangible assets (Note 11)	<b>(3,886,107)</b>	(659,794)	(1,287,611)
Acquisition through business combination, net of cash acquired (Note 2)	<b>(46,878,629)</b>	–	–
Capitalized development costs, excluding depreciation (Notes 11 and 33)	<b>(4,004,265)</b>	–	–
Proceeds from sale and retirement of property, plant and equipment	<b>289,493</b>	672,955	19,193,171
Decrease (increase) in other noncurrent assets	<b>(689,989)</b>	(154,315)	705,533
Net cash used in investing activities	<b>(103,513,715)</b>	(35,261,336)	(5,602,045)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of loans	<b>265,905,842</b>	50,465,041	24,299,485
Payments of:			
Loans payable	<b>(129,611,778)</b>	(38,053,777)	(16,301,258)
Long-term debt	<b>(83,007,267)</b>	(2,397,400)	(2,903,578)
Dividends paid to equity holders of the Parent Company (Note 18)	<b>(8,620,747)</b>	(8,559,041)	(3,099,043)
Collections of subscriptions receivable (Note 18)	<b>462,377</b>	460,634	328,621
Cash paid on acquisition of non-controlling interests (Note 2)	<b>(360,301)</b>	–	(638,622)
Settlement of derivatives (Note 31)	<b>(114,400)</b>	169,612	(75,702)
Redemption of preferred shares (Note 18)	–	(28,435,799)	–
Decrease in obligations under finance lease	–	(2,257,583)	(1,452,792)
Proceeds from shares issuance (Note 18)	–	–	35,921,140
Transaction costs on shares issuance (Note 18)	–	–	(1,502,981)
Acquisition of treasury shares	–	–	(1)
Net cash provided by (used in) financing activities	<b>44,653,726</b>	(28,608,313)	34,575,269
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>			
	<b>(322,936)</b>	(504,766)	(560,227)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	<b>(14,983,674)</b>	(16,093,082)	68,582,892
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	<b>101,532,409</b>	117,625,491	49,042,599
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>			
	<b>\$86,548,735</b>	\$101,532,409	\$117,625,491

See accompanying Notes to Consolidated Financial Statements.



# INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

Integrated Micro-Electronics, Inc. (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 is 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). AC is 49.01% owned by Mermac, Inc., 10.18% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna, Technopark, 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.

IMI Singapore is an investment and holding entity 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 Philippines. STEL and its subsidiaries (collectively referred to as "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.

On April 16, 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.

On July 29, 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 "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.

On September 14, 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. Once combined, the Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issue by the Parent Company's Board of Directors (BOD) on February 15, 2017.

## 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
	2016	2015	2014		
IMI Singapore	100.00%	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	100.00%	100.00%	100.00%	Philippines	USD
STEL Group	100.00%	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD) <sup>a</sup>	100.00%	100.00%	100.00%	China	Renminbi (RMB)
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	100.00%	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	100.00%	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ) <sup>b</sup>	100.00%	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	100.00%	100.00%	100.00%	China	USD
Speedy-Tech (Philippines), Inc. (STPH) <sup>c</sup>	100.00%	100.00%	100.00%	Philippines	USD
Speedy-Tech Electronics, Inc.	100.00%	100.00%	100.00%	USA	USD
Monarch Elite Ltd. (Monarch)	100.00%	100.00%	100.00%	Hong Kong	USD
Cooperatief <sup>d</sup>	100.00%	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG <sup>e</sup>	100.00%	100.00%	100.00%	Bulgaria	EUR
Microenergia EOOD (Microenergia)	100.00%	100.00%	100.00%	Bulgaria	EUR
IMI CZ	100.00%	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX <sup>f</sup>	100.00%	100.00%	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	100.00%	100.00%	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	100.00%	100.00%	100.00%	France	EUR

(Forward)



Subsidiary	Percentage of Ownership			Country of Incorporation	Functional Currency
	2016	2015	2014		
VIA	<b>76.01%</b>	–	–	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou)	<b>76.01%</b>	–	–	China	RMB
VIA Optronics LLC (VIA LLC)	<b>76.01%</b>	–	–	USA	USD
IMI USA	<b>100.00%</b>	100.00%	100.00%	USA	USD
IMI Japan	<b>100.00%</b>	100.00%	100.00%	Japan	USD
PSi	<b>100.00%</b>	100.00%	100.00%	Philippines	USD
PSiTech Realty, Inc. (PSiTech Realty) <sup>g</sup>	<b>40.00%</b>	40.00%	40.00%	Philippines	USD
Pacsem Realty, Inc. (Pacsem Realty) <sup>g</sup>	<b>64.00%</b>	64.00%	64.00%	Philippines	USD

<sup>a</sup> On August 1, 2014, IMI CD changed its functional currency from USD to RMB.

<sup>b</sup> On June 30, 2014, STEL Group's BOD passed a resolution to wind up STCQ. The dissolution was completed in 2016.

<sup>c</sup> 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.

<sup>d</sup> Cooperatief is 99% owned by Monarch and 1% owned by IMI Singapore.

<sup>e</sup> On January 1, 2016, IMI BG changed its functional currency from Bulgarian Lev (BGN) to EUR

<sup>f</sup> On March 1, 2014, IMI MX changed its functional currency from MXP to USD.

<sup>g</sup> 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 15, 2017, such approval is still pending.

## Business Combinations

### Acquisition of VIA

On August 16, 2016, Cooperatief and the shareholders of VIA entered into a Sale and Purchase Agreement (SPA) under which Cooperatief will acquire a 76.01% stake in VIA for a total cash consideration of €47.79 million (\$53.46 million), while the remaining 23.99% to be retained by the company founder.

The SPA 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	Description	Trigger Events	Option Shares	Option Price
Call Option	Right of IMI to buy all shares held by the non-controlling shareholder	<ul style="list-style-type: none"> <li>Termination for a cause or expiration of the service agreement</li> </ul>	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
Exit put option	Right of the non-controlling shareholder to sell all shares held to IMI	<ul style="list-style-type: none"> <li>Termination for a cause or expiration of the service agreement</li> <li>Share capital of VIA is increased that will dilute the holding of non-controlling interest to below 10%</li> </ul>	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
5% put option	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	<ul style="list-style-type: none"> <li>Exercisable any time between 1<sup>st</sup> and 3<sup>rd</sup> anniversary of the agreement</li> <li>If prior to the 3<sup>rd</sup> anniversary, the share capital of VIA is increased, the option may be exercised within 3 months from registration of the capital increase</li> </ul>	One share with a nominal value of €3,666	€3.1 million

Management assessed that it does not have present access to the returns associated with the non-controlling interest. The Group takes the view that the non-controlling interest should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements*, and must be presented within equity, separate from the equity of the owners of the Parent Company, until the put option is exercised. The Group has elected to measure non-controlling interest in the acquiree at the proportionate share of the non-controlling interest in the recognized amounts of the acquiree's identifiable net assets. The carrying amount of non-controlling interest changes due to allocation of profit or loss, changes in other comprehensive income and dividends declared for the reporting period.



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. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative is nil. 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.

The Group accounted for the put options as financial liabilities measured at the present value of the redemption amount, with a debit to "Additional paid-in capital" account, amounting to \$12.06 million on initial valuation. Mark-to-market loss from valuation date until December 31, 2016 amounting to \$0.40 million was recognized in the consolidated statements of income.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows:

<b>Assets</b>	
Cash and cash equivalents	\$6,584,881
Receivables	18,744,735
Inventories	5,448,266
Prepayments and other current assets	660,401
Property, plant and equipment	3,149,309
Intangible asset	493,368
Deferred tax asset	558,287
Other noncurrent assets	158,792
	<hr/>
	35,798,039
<b>Liabilities</b>	
Accounts payable	18,392,913
Accrued expenses	1,757,545
Current portion of long-term debt	125,854
Loans payable	8,477,907
Other current liabilities	1,183,946
Long-term debt	209,169
	<hr/>
	30,147,334
<b>Net Assets</b>	<hr/> <b>\$5,650,705</b> <hr/>
Cost of acquisition	\$53,463,510
Less: Share in the fair value of net assets acquired (76.01%)	4,295,101
<b>Provisional goodwill (Note10)</b>	<hr/> <b>\$49,168,409</b> <hr/>
<b>Non-controlling interest (23.99%)</b>	<hr/> <b>\$1,355,604</b> <hr/>

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. This include information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identified intangible assets (patents, trademark and customer relationships). 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 provisional goodwill recognized on the acquisition can be attributed to its strong position to address the growing demand for displays in automotive and industrial outdoor



applications and its experience in high reliability markets that matches the Group's existing offerings in the automotive, industrial and medical markets.

Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*, provides that 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. The comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

Analysis of cash flows on acquisition:

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

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)
<b>Total amount recognized in "Other reserves" account within equity</b>	<b>(\$170,714)</b>

*Acquisition of additional interest in PSi*

Effective December 31, 2014, the Parent Company acquired the remaining 16.75% interest in PSi from the minority shareholders, Narra Venture Capital II, LP (Narra VC) and Narra Associates II Limited, for a total consideration of \$500,000. The purchase of the remaining shares resulted to IMI's full ownership of IMI in PSi.

The details of the transaction are as follows:

Non-controlling interest acquired	(\$3,144,660)
Consideration paid to the non-controlling shareholder	(500,000)
<b>Total amount recognized in "Additional paid-in capital" account within equity</b>	<b>(\$3,644,660)</b>



*Acquisition of additional interest in Microenergia*

In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia for a total consideration of \$138,622.

The details of the transaction are as follows:

Non-controlling interest acquired	\$200,283
Consideration paid to the non-controlling shareholder	(138,622)
Total amount recognized in "Additional paid-in capital" account within equity	\$61,661

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### 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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

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:

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- 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.

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 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, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint ventures.

- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.



The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact to the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any material impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost



(before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

The amendments are applied retrospectively and do not have any impact to the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

These amendments do not have any impact to the Group's consolidated financial statements.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no



deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### Standards and Interpretation Issued but not yet Effective

The Group will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *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.

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

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

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- 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 on the reversal of that deductible temporary difference. 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.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.



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

*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 assessing the potential effect of the amendments on its consolidated financial statements.

- 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 forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied 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 or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of PFRS 15.



- 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. 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 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 nonmonetary 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.

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

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

*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.

#### 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, 2016 and 2015 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 and financial liabilities on put options.

*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), trust receipts and loans 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 30.



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

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.

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.

#### 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 either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent



consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling 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 gain is recognized in profit or loss. 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.

#### 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 on 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
Customer relationships	5
Unpatented technology	5
Computer software	3
Patents and trademarks	5
Product development cost	7

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 is tested for impairment annually as of September 30 and 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.

##### *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.

#### Expenses

Expenses of the Group include cost of sales, operating expenses and interest expense.

#### *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.

#### *Interest expenses*

Interest expense is recognized in profit and loss for all interest-bearing financial instruments using the EIR method.

#### 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 USD, RMB, EUR and CZK. 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, PRC and Hong Kong, Czech Republic, Mexico and Germany 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.

#### PRC

The subsidiaries incorporated and operating in PRC are required to provide certain staff retirement benefits to their employees under existing PRC regulations, a defined contribution scheme. Retirement contributions are provided at rates stipulated by PRC 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.

#### *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, Singapore/China, Europe, Mexico, Germany (VIA), and USA/ Japan. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 27.

#### 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.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately, unless the loss is compensated by future lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

#### 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.

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#### **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, 2016, IMI BG changed its functional currency from BGN to EUR. Effective March 1, 2014, IMI MX changed its functional currency from MXP to USD while IMICD changed its functional currency from USD to RMB on August 1, 2014. 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 28.

*Contingencies*

The Group is currently involved in various legal proceedings and tax assessments. 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 32.

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 put options financial liabilities*

The acquisition of VIA during the year included call and put options over the non-controlling interest. 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 interest in a subsidiary and, therefore, accounted for the non-controlling interest 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. In determining the current equity value,



management is required to make an estimate of the expected future cash flows of the acquiree using the forecasted revenue growth rate and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on the valuation of the put options are disclosed in Note 30.

*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. Impairment for goodwill is assessed at least annually. 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. 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 cash-generating units 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 23.

### *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 25.

### *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 26.



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5. **Cash and Cash Equivalents**

This account consists of:

	<b>2016</b>	2015
Cash on hand	<b>\$83,701</b>	\$34,756
Cash in banks	<b>75,816,054</b>	67,159,479
Short-term investments	<b>10,648,980</b>	34,338,174
	<b>\$86,548,735</b>	\$101,532,409

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 \$0.29 million in 2016, \$0.66 million in 2015 and \$0.20 million in 2014.

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6. **Receivables - net**

This account consists of:

	<b>2016</b>	2015
Trade	<b>\$192,152,117</b>	\$165,831,122
Nontrade	<b>3,804,516</b>	1,737,293
Receivable from insurance	<b>1,860,624</b>	1,066,414
Receivable from employees	<b>553,745</b>	735,464
Due from related parties (Note 29)	<b>299,713</b>	196,341
Others	<b>1,265,782</b>	1,420,361
	<b>199,936,497</b>	170,986,995
Less allowance for doubtful accounts	<b>1,733,743</b>	1,695,414
	<b>\$198,202,754</b>	\$169,291,581

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 by STJX, \$0.41 million of which have been collected in 2016 (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.

Others

Others include government creditable tax and receivables from the plan assets managed by BPI.



Allowance for Doubtful Accounts

Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of \$1.73 million and \$1.70 million as of December 31, 2016 and 2015, 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, 2016				Total
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	
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

	December 31, 2015				Total
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	
At beginning of year	\$1,020,047	\$72,075	\$17,895	\$1,066,423	\$2,176,440
Provisions (reversals)	442,247	(4,312)	409	–	438,344
Accounts written-off	(303,823)	–	–	–	(303,823)
Foreign currency exchange difference	(614,671)	(1)	(866)	(9)	(615,547)
At end of year	\$543,800	\$67,762	\$17,438	\$1,066,414	\$1,695,414

Provisions (reversals) during the year form part of “Operating expenses” account and are included under “Facilities costs and others” (see Note 21).

**7. Inventories**

This account consists of:

	2016	2015
Raw materials and supplies	\$75,849,560	\$64,279,114
Work-in-process	17,195,051	15,814,870
Finished goods	19,654,056	17,696,686
	<b>112,698,667</b>	<b>97,790,670</b>
Less allowance for:		
Inventory obsolescence	6,331,871	9,351,194
Decline in value of inventories	234,267	184,267
	<b>6,566,138</b>	<b>9,535,461</b>
	<b>\$106,132,529</b>	<b>\$88,255,209</b>

The cost of the inventories carried at NRV amounted to \$24.06 million and \$30.17 million as of December 31, 2016 and 2015, respectively. The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to \$571.52 million in 2016, \$546.90 million in 2015 and \$547.25 million in 2014 (see Note 19).

In 2016, STJX claimed and collected an 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.



In 2014, the Parent Company claimed and collected an insurance amounting to \$0.43 million for the damaged inventories caused by a typhoon in August 2013. The total cost of affected stocks amounted to \$0.25 million while the related allowance for inventory obsolescence amounted to \$0.15 million.

Movements in the allowance for inventory obsolescence are as follows:

	2016	2015
At beginning of year	<b>\$9,351,194</b>	\$7,811,593
Provisions (reversals) (Note 21)	<b>(2,660,809)</b>	1,591,170
Write-offs	<b>(358,514)</b>	(51,569)
At end of year	<b>\$6,331,871</b>	\$9,351,194

Movements in the allowance for decline in value of inventories value are as follows:

	2016	2015
At beginning of year	<b>\$184,267</b>	\$84,267
Provisions (Note 21)	<b>50,000</b>	100,000
At end of year	<b>\$234,267</b>	\$184,267

The Group recognized gains from sale of materials amounting to \$0.05 million in 2016, \$0.08 million in 2015, and \$0.08 million in 2014. Gains from sale of materials are included under "Miscellaneous income (loss) - net" account in the consolidated statement of income.

## 8. Other Current Assets

This account consists of:

	2016	2015
Advances to suppliers	<b>\$8,838,927</b>	\$3,368,484
Tax credits	<b>3,585,118</b>	4,845,950
Prepayments	<b>2,372,073</b>	1,944,718
Input taxes	<b>524,748</b>	710,431
Noncurrent assets held for sale (Note 9)	<b>362,124</b>	-
Derivative assets (Notes 30 and 31)	<b>67,062</b>	66,117
Others	<b>340,745</b>	-
	<b>\$16,090,797</b>	\$10,935,700

Advances to suppliers represent advance payments made to suppliers for direct materials.

Tax credits includes amounts withheld from income tax payments of the Parent Company and PSI and value added tax refund claims of IMI MX and IMI BG.

Noncurrent assets held for sale relates to the sale and purchase agreement between STSN 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 the next year. The carrying value of the manufacturing facility amounted to \$0.36 million included as part of building and improvement (see Note 9).

Prepayments include prepayments for life and fire insurance, rent and 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.



## 9. Property, Plant and Equipment - net

Movements in this account are as follows:

	2016						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
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
<b>Accumulated depreciation</b>							
At beginning of year	39,524,650	64,001,044	13,632,345	538,637	2,848,671	–	120,545,347
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	37,014,297	70,587,535	14,770,431	590,693	3,332,593	–	126,295,549
<b>Accumulated impairment losses</b>							
At beginning and end of year	736,565	983,421	12,226	–	–	–	1,732,212
<b>Net book value</b>	<b>\$37,489,443</b>	<b>\$60,421,037</b>	<b>\$5,143,806</b>	<b>\$1,109,890</b>	<b>\$4,383,862</b>	<b>\$8,856,966</b>	<b>\$117,405,004</b>

	2015						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At beginning of year	\$67,855,568	\$107,813,052	\$17,072,026	\$1,348,489	\$4,033,096	\$3,166,512	\$201,288,743
Additions	5,114,407	15,796,577	1,688,760	357,988	2,055,485	10,106,965	35,120,182
Disposals	(153,057)	(14,112,822)	(608,948)	(188,637)	(582,097)	(101,934)	(15,747,495)
Retirement	–	–	(32,678)	–	–	–	(32,678)
Transfers	157,786	3,152,302	9,275	15,140	(16,608)	(3,317,895)	–
Foreign currency exchange difference	(861,158)	(3,751,104)	(227,789)	(64,654)	–	(344,517)	(5,249,222)
At end of year	72,113,546	108,898,005	17,900,646	1,468,326	5,489,876	9,509,131	215,379,530
<b>Accumulated depreciation</b>							
At beginning of year	36,259,558	65,122,088	12,865,245	296,404	3,325,306	–	117,868,601
Depreciation	3,668,656	15,241,827	1,542,250	471,850	92,236	–	21,016,819
Disposals	(149,789)	(13,758,091)	(606,493)	(183,395)	(568,871)	–	(15,266,639)
Retirement	–	–	(6,354)	–	–	–	(6,354)
Foreign currency exchange difference	(253,775)	(2,604,780)	(162,303)	(46,222)	–	–	(3,067,080)
At end of year	39,524,650	64,001,044	13,632,345	538,637	2,848,671	–	120,545,347
<b>Accumulated impairment losses</b>							
At beginning and end of year	736,565	983,421	12,226	–	–	–	1,732,212
<b>Net book value</b>	<b>\$31,852,331</b>	<b>\$43,913,540</b>	<b>\$4,256,075</b>	<b>\$929,689</b>	<b>\$2,641,205</b>	<b>\$9,509,131</b>	<b>\$93,101,971</b>

The Group capitalized depreciation related to development phase for certain projects amounting to \$1.90 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

In 2016, STJX claimed an insurance amounting to \$0.70 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 Group recognized a loss from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to \$0.14 million in 2016, and gains amounting to \$0.17 million in 2015 and \$0.18 million in 2014. 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, 2016 and 2015, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to \$212.82 million and \$161.79 million, respectively. Depreciation expense included in “Cost of goods sold and services” and “Operating expenses” accounts follows:

	2016	2015	2014
Cost of goods sold and services (Note 19)	<b>\$20,036,576</b>	\$18,570,445	\$18,332,968
Operating expenses (Note 20)	<b>2,435,670</b>	2,446,374	2,526,881
	<b>\$22,472,246</b>	\$21,016,819	\$20,859,849

## 10. Goodwill

As of December 31, 2016 and 2015, goodwill acquired through business combinations had been allocated to the following CGUs:

	2016	2015
VIA	<b>\$49,168,409</b>	\$–
STEL	<b>45,128,024</b>	45,128,024
Parent Company	<b>1,097,776</b>	441,166
IMI CZ	<b>650,413</b>	650,413
IMI USA	–	656,610
	<b>\$96,044,622</b>	\$46,876,213

As mentioned in Note 4, goodwill is tested for impairment annually as of September 30 every year and when circumstances indicate that the carrying amount is impaired.

### VIA, STEL 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:

	2016	2015
VIA	<b>11.20%</b>	–
STEL	<b>11.89%</b>	13.36%
IMI CZ	<b>9.56%</b>	8.79%
IMI USA	–	10.87%

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:

- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management’s best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- 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 VIA, STEL and IMI CZ in 2016, 2015 and 2014.

*Sensitivity to changes in assumptions*

With regard to the assessment of value-in-use of VIA, STEL 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 and IMI USA

The goodwill of the Parent Company pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to the Parent Company as testing and development department. The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell.

The impairment test for the goodwill of IMI USA was previously based on value-in-use calculations using cash flow projections of IMI USA covering a 5-year period. In 2016, the Group changed the basis of the recoverable amount using the market price of the Parent Company's shares at valuation date less estimated costs to sell (see Note 4).

The Group re-assessed the basis of recoverable amounts of the goodwill of IMI USA. The assessment resulted to change in activities of the CGU from an operating segment to a global support entity.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2016, 2015 and 2014.

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## 11. Intangible Assets

Movements in this account are as follows:

	December 31, 2016					Total
	Customer Relationships	Unpatented Technology	Computer Software	Patents and Trademarks	Product Development	
<b>Cost</b>						
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)	-	-	-	493,368	-	493,368
Foreign currency exchange difference	-	-	(260,613)	(29,134)	-	(289,747)
At end of year	19,666,617	100,000	9,009,676	464,234	5,899,990	35,140,517
<b>Accumulated amortization</b>						
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
<b>Net book value</b>	\$-	\$-	\$4,169,791	\$399,297	\$5,899,990	\$10,469,078



	December 31, 2015			
	Customer Relationships	Unpatented Technology	Computer Software	Total
<b>Cost</b>				
At beginning of year	\$19,666,617	\$100,000	\$4,854,715	\$24,621,332
Additions	–	–	659,794	659,794
Foreign currency exchange difference	–	–	(130,327)	(130,327)
At end of year	19,666,617	100,000	5,384,182	25,150,799
<b>Accumulated amortization</b>				
At beginning of year	17,523,854	100,000	2,994,733	20,618,587
Amortization	1,353,323	–	878,528	2,231,851
Foreign currency exchange difference	–	–	(98,100)	(98,100)
At end of year	18,877,177	100,000	3,775,161	22,752,338
Net book value	\$789,440	\$–	\$1,609,021	\$2,398,461

#### 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 relationship of STEL Group amounting to \$12.90 million is fully amortized as of December 31, 2016 and 2015.

#### 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.

#### Computer Software

This includes acquisitions of computer software, applications and modules.

#### Patents and Trademarks

VIA's patents and trademarks pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods.

#### Product Development Costs

This includes capitalized costs arising from the development phase of certain projects which are still under 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 12.54% to 14.44%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

No impairment loss was assessed for the product development costs in 2016.

Research expenditure recognized as expense amounted to \$0.26 million, \$0.11 million and \$0.14 million in 2016, 2015 and 2014, respectively.

Amortization expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2016	2015	2014
Cost of goods sold and services (Note 19)	\$34,951	\$15,604	\$6,182
Operating expenses (Note 20)	1,954,597	2,216,247	2,114,252
	<b>\$1,989,548</b>	<b>\$2,231,851</b>	<b>\$2,120,434</b>



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**12. Available-for-Sale Financial Assets**

This account consists of:

	2016	2015
Investment securities	<b>\$1,753,589</b>	\$1,753,589
Club shares	<b>740,949</b>	583,510
	<b>2,494,538</b>	2,337,099
Less allowance for impairment loss on AFS financial assets	<b>1,753,589</b>	1,753,589
	<b>\$740,949</b>	\$583,510

As of December 31, 2016 and 2015, the balance of investment securities pertains to Class A common stock of a customer. This investment was provided with full allowance in prior year due to the investee company's financial difficulties.

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**13. Other Noncurrent Assets**

This account consists of:

	2016	2015
Miscellaneous deposits	<b>\$2,512,368</b>	\$1,897,070
Others	<b>209,689</b>	134,998
	<b>\$2,722,057</b>	\$2,032,068

Miscellaneous deposits includes electric meter deposits to AC Energy Holdings Inc. (ACEHI) and water meter deposits.

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**14. Accounts Payable and Accrued Expenses**

This account consists of:

	2016	2015
Trade payables	<b>\$136,114,721</b>	\$103,563,112
Accrued compensation and benefits	<b>21,685,525</b>	23,263,280
Accrued expenses	<b>16,676,506</b>	15,734,289
Nontrade payables	<b>8,050,234</b>	5,121,760
Advances from a third party	<b>6,538,462</b>	-
Advances from customers (Note 17)	<b>2,567,552</b>	552,086
Taxes payable	<b>1,094,518</b>	1,366,363
Customers' deposits	<b>896,712</b>	572,997
Accrued interest payable	<b>769,072</b>	509,027
Due to related parties (Note 29)	<b>590,369</b>	4,681
Employee-related contributions	<b>455,272</b>	580,374
Derivative liabilities (Note 30)	<b>10,567</b>	10,567
Others	<b>225,794</b>	1,538,689
	<b>\$195,675,304</b>	\$152,817,225

Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

Accrued Compensation and Benefits

Accrued compensation and benefits include accrued salaries, leave credits and other employee benefits.



Accrued Expenses

Accrued expenses consist mainly of accruals for taxes, professional fees, utilities, sub-contractual costs and supplies.

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.

Advances from a Third Party

The amount pertains to the deposit received related to the sale and purchase agreement between STSN 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 the next year.

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%, current portion of PSi's advances from local customers, and advance payments made by customers for goods and services of the Parent Company and STEL (see Note 17).

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.

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**15. Trust Receipts and Loans Payable**

This account consists of borrowings of the following entities:

	2016	2015
Parent Company	<b>\$25,000,000</b>	\$25,000,000
PSi	<b>9,449,192</b>	9,297,356
STEL	<b>8,000,000</b>	8,000,000
VIA	<b>7,903,449</b>	-
IMI CZ	<b>1,092,528</b>	-
	<b>\$51,445,169</b>	<b>\$42,297,356</b>



Parent Company

As of December 31, 2016 and 2015, the Parent Company has short-term loans aggregating to \$25.0 million with maturities ranging from 30 to 180 days, and fixed annual interest rates ranging from 1.23% to 1.24% in 2016, from 1.03% to 1.50% in 2015 and from 1.75% to 2.20% in 2014.

The Parent Company incurred interest expense on its short-term loans amounting to \$0.65 million in 2016, \$0.46 million in 2015 and \$0.64 million in 2014 (see Note 22).

PSi

PSi has short-term loans from a local bank amounting to \$9.20 million as of December 31, 2016 and 2015, and trust receipts payable amounting to \$0.25 million and \$0.10 million as of December 31, 2016 and 2015, respectively. These loans fall under an unsecured Omnibus Line Credit Facility of \$10.00 million granted on November 24, 2010. The credit facility includes 30 to 360-day Promissory Notes (maybe denominated in USD or Philippine Peso (PHP), Letter of Credit (LC)/Trust Receipt Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates of 3.17% in 2016, from 2.03% to 2.82% in 2015 and from 2.23% to 2.53% in 2014.

The undrawn credit facility amounted to \$0.55 million and \$0.70 million as of December 31, 2016 and 2015, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to \$0.28 million in 2016, \$0.24 million in 2015 and \$0.23 million in 2014 (see Note 22).

STEL

The loans of STEL are clean loans from existing revolving credit facilities with a Singaporean bank and bear annual interest rate of 2.24% in 2016, 1.73% in 2015 and from 1.93% to 2.38% in 2014 and have maturities of 30 to 60 days from the date of issue, with renewal options.

STEL incurred interest expense on its short-term loans amounting to \$0.16 million in 2016, \$0.16 million in 2015 and \$0.17 million in 2014 (see Note 22).

VIA

The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB amounting to a total of \$5.81 million with terms ranging from 140 to 180 days and loan from a German-based bank amounting to €2.0 million (\$2.09 million) with term of 90 days with renewable options and bears interest rate of 1.95% per annum.

VIA incurred interest expense on its short-term loans payable amounting to \$0.05 million (see Note 22).

IMI CZ

The loans of IMI CZ are clean loans from existing revolving credit facilities with Unicredit Czech and Citibank and bear interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on its short-term loans payable amounting to \$3,463 (see Note 22).



## 16. Long-Term Debt

This account consists of borrowings of the following entities:

	2016	2015
Parent Company	<b>\$120,222,000</b>	\$65,494,000
Cooperatief	<b>6,586,800</b>	8,980,407
IMI CZ	<b>1,818,198</b>	2,467,864
IMI BG	<b>417,760</b>	659,494
VIA	<b>284,338</b>	-
	<b>129,329,096</b>	77,601,765
Less current portion:		
Parent Company	<b>5,222,000</b>	40,000,000
Cooperatief	<b>2,108,200</b>	2,177,400
IMI CZ	<b>528,478</b>	555,778
IMI BG	<b>208,880</b>	219,831
VIA	<b>117,495</b>	-
	<b>8,185,053</b>	42,953,009
Noncurrent portion	<b>\$121,144,043</b>	\$34,648,756

### Parent Company

On October 10, 2016, the Parent Company obtained a \$40.00 million 5-year term loan from a local bank subject to a fixed interest rate of 2.70%.

On September 29, 2016, the Parent Company obtained a \$15.00 million 3-year term loan from a local bank subject to a fixed interest rate of 2.42%.

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 equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. 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 6-month LIBOR plus 1.50% spread per annum. The loan which will mature in February 2017 was reclassified to current portion of long-term debt in 2016.

In October 2011, the Parent Company obtained a 5-year term clean loan from a local bank amounting to \$40.00 million, payable in a single balloon payment due in 2016. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%. In October 2016, the loan was settled in full and the Parent Company obtained a new 5-year term loan with the same bank subject to a fixed interest rate of 2.70% per annum.

The Parent Company incurred interest expense on its long-term loans amounting to \$1.83 million in 2016, \$0.98 million in 2015 and \$0.81 million in 2014 (see Note 22).

Loan covenants related to the Parent Company's loans are as follows:

- The ratio of debt to earnings before interest, taxes, depreciation and amortization (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, 2016 and 2015, 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 €8.00 million from 2013 to 2016 with an annual payment of €2.00 million every July of each year.

Below is the amortization schedule:

<u>Due Dates</u>	<u>In EUR</u>	<u>In USD</u>
2017	€2,000,000	\$2,108,200
2018	4,248,743	4,478,600
	€6,248,743	\$6,586,800

Cooperatief incurred interest expense on its long-term debt amounting to \$0.26 million in 2016, \$0.32 million in 2015 and \$0.47 million in 2014 (see Note 22).

#### IMI CZ

On August 14, 2015, IMI CZ obtained a term loan facility from Citibank amounting to €2.00 million that was used to settle intercompany loans. The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus 1.20% but is not to exceed 15% per annum.

In 2013, IMI CZ obtained a long-term debt from Citibank that relates to a term loan facility for the purchase of its new SMT machine. The debt bears annual interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

IMI CZ incurred interest expense on its long-term debt amounting to \$0.03 million in 2016, and \$0.02 million in 2015 and 2014 (see Note 22).

#### IMI BG

IMI BG has a long-term debt from BNP Paribas 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 BNP Paribas 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 \$0.02 million in 2016 and \$0.02 million in 2015 (see Note 22).

#### VIA

VIA has a long-term debt from Sparkasse Bank amounting to €0.27 million. The debt bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to \$3,803 (see Note 22).



## 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.

As of December 31, 2016 and 2015, the current and noncurrent portion of Group's advances from the local customers follows:

	2016	2015
Total outstanding advances from local customers	<b>\$1,788,232</b>	\$1,675,429
Less current portion (Note 14)	<b>650,367</b>	552,086
Noncurrent portion	<b>\$1,137,865</b>	\$1,123,343

## 18. Equity

### Capital Stock

This account consists of:

	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Authorized - ₱1 par value</b>						
Common	<b>2,250,000,000</b>		2,250,000,000		2,250,000,000	
Preferred (Note 34)	<b>1,500,000,000</b>		1,500,000,000		1,500,000,000	
<b>Issued - Common</b>						
At beginning of year	<b>1,793,429,765</b>	<b>\$34,933,728</b>	1,790,416,179	\$34,876,616	1,572,129,429	\$30,016,551
Issuances during the year:						
ESOWN	<b>88,876</b>	<b>1,981</b>	3,013,586	57,112	3,286,750	70,580
Public offering	-	-	-	-	215,000,000	4,789,485
At end of year*	<b>1,793,518,641</b>	<b>\$34,935,709</b>	1,793,429,765	\$34,933,728	1,790,416,179	\$34,876,616
<b>Issued - Preferred</b>						
At beginning of year	-	\$-	1,300,000,000	\$26,601,155	1,300,000,000	\$26,601,155
Redemption	-	-	(1,300,000,000)	(26,601,155)	-	-
At end of year	-	\$-	-	\$-	1,300,000,000	\$26,601,155

\* Out of the total issued shares, 15,892,124 shares as of December 31, 2016, 2015 and 2014 pertain to treasury shares.

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 (see Note 34).



On December 5, 2014, the Parent Company has completed its public offering and listing of 215,000,000 common shares at an offer price of ₱7.50 per share, with a par value of ₱1.00 per share, raising ₱1.61 billion (\$35.92 million) cash to fund capital expenditure, support business expansion, refinance debt, and fund working capital requirements.

As of December 31, 2016, 2015 and 2014, there were 338, 367 and 456 registered common stockholders, respectively.

#### Subscribed Capital Stock

Details of this account follow:

	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
At beginning of year	<b>87,200,345</b>	<b>\$1,907,584</b>	82,375,866	\$1,797,638	57,141,000	\$1,229,926
Subscriptions during the year - ESOWN	-	-	10,393,394	222,366	31,797,958	708,590
Issuances during the year - ESOWN	<b>(88,876)</b>	<b>(1,981)</b>	(3,013,586)	(57,112)	(3,286,750)	(70,580)
Forfeitures during the year - ESOWN	<b>(2,175,240)</b>	<b>(48,163)</b>	(2,555,329)	(55,308)	(3,276,342)	(70,298)
At end of year	<b>84,936,229</b>	<b>\$1,857,440</b>	87,200,345	\$1,907,584	82,375,866	\$1,797,638

#### Subscriptions Receivable

Details of this account are as follows:

	2016	2015	2014
At beginning of year	<b>\$13,131,734</b>	\$12,906,784	\$9,590,746
Subscriptions during the year	-	1,136,291	4,187,765
Forfeitures during the year	<b>(334,665)</b>	(450,707)	(622,524)
Collections during the year	<b>(462,377)</b>	(460,634)	(328,621)
Accretion during the year (Note 26)	-	-	79,418
At end of year (Note 26)	<b>\$12,334,692</b>	\$13,131,734	\$12,906,784

#### Additional Paid-in Capital

The grant of equity-settled awards to the Group's employees was recognized as increase in the "Additional paid-in capital" account.

Costs directly attributable to the issuance of new common shares in relation to the public offering amounting to \$1.50 million in 2014 were accounted for by the Parent Company as deduction from "Additional paid-in capital" account. These transaction costs include, among others, underwriting fees, legal and audit professional fees, documentary stamp tax, registration fees, prospectus design, and printing and publication costs.

The financial liability arising from the written put options over the non-controlling interest of VIA was recognized with a corresponding debit to the "Additional paid-in capital" account.

#### Dividends

##### 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.



2014

On December 2, 2014, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividends for 2015 to all preferred shareholders of the Parent Company at a dividend rate of 2.90% per annum. Details of the dividend payment are as follows:

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Record date	February 6, 2015	May 8, 2015	August 7, 2015	November 11, 2015
Payment date	February 20, 2015	May 22, 2015	August 24, 2015	November 25, 2015
Amount	\$209,958	\$209,958	\$216,956	\$214,623

The fourth quarter dividends payable amounting to \$0.21 million was cancelled and credited back to the "Retained Earnings" account upon redemption of the preferred shares on August 17, 2015.

On February 17, 2014, the BOD of the Parent Company approved the declaration of cash dividend of \$0.00140 or ₱0.06319 per share to all outstanding common shares as of record date of March 3, 2014, payable on March 19, 2014.

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.

Accumulated net earnings of the subsidiaries amounting to \$143.76 million and \$105.76 million as of December 31, 2016 and 2015, 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, 2016 amounted to \$16.18 million.

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**19. Cost of Goods Sold and Services**

This account consists of:

	2016	2015	2014
Direct, indirect and other material-related costs (Note 7)	<b>\$571,521,298</b>	\$546,897,934	\$547,251,922
Direct labor, salaries, wages and employee benefits (Note 25)	<b>116,183,955</b>	121,291,155	144,418,120
Depreciation and amortization (Notes 9 and 11)	<b>20,071,527</b>	18,586,049	18,339,150
Facilities costs and others (Note 21)	<b>33,880,263</b>	33,557,495	40,531,872
	<b>\$741,657,043</b>	\$720,332,633	\$750,541,064



## 20. Operating Expenses

This account consists of:

	2016	2015	2014
Salaries, wages and employee benefits (Note 25)	<b>\$31,222,323</b>	\$31,366,967	\$35,769,440
Depreciation and amortization (Notes 9 and 11)	<b>4,390,267</b>	4,662,621	4,641,133
Facilities costs and others (Note 21)	<b>22,753,852</b>	20,068,937	23,821,906
	<b>\$58,366,442</b>	\$56,098,525	\$64,232,479

## 21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2016	2015	2014	2016	2015	2014
Utilities	<b>\$15,750,396</b>	\$15,786,733	\$19,066,162	<b>\$1,468,908</b>	\$1,217,805	\$845,160
Outsourced activities	<b>7,868,740</b>	7,359,668	8,613,743	<b>9,225,760</b>	6,799,414	6,006,755
Repairs and maintenance	<b>6,722,042</b>	6,874,986	8,112,925	<b>702,432</b>	502,700	531,423
Travel	<b>968,879</b>	541,422	545,473	<b>2,862,709</b>	1,550,962	1,906,188
Insurance	<b>731,918</b>	710,192	692,566	<b>1,248,871</b>	1,193,732	1,177,782
Government-related	<b>693,687</b>	981,847	1,235,608	<b>3,218,639</b>	3,098,023	3,439,593
Staff house	<b>487,016</b>	587,741	577,605	<b>395,817</b>	222,900	346,955
Postal and communication	<b>314,889</b>	319,625	404,019	<b>932,780</b>	708,817	867,256
Promotional materials, representation and entertainment	<b>152,529</b>	154,098	148,576	<b>1,153,585</b>	782,715	900,744
Technology-related	<b>56,817</b>	71,019	637,437	<b>1,593,971</b>	774,398	1,361,518
Membership fees	<b>16,041</b>	2,289	2,187	<b>160,137</b>	134,131	90,386
Sales commission	-	-	-	<b>1,251,399</b>	362,708	1,084,492
Provision (reversal of provision) for inventory obsolescence (Note 7)	-	-	-	<b>(2,660,809)</b>	1,591,170	3,737,353
Provision (reversal of provision) for doubtful accounts (Note 6)	-	-	-	<b>204,607</b>	438,344	(899,304)
Provision for allowance for decline in value of inventories (Note 7)	-	-	-	<b>50,000</b>	100,000	84,267
Others	<b>117,309</b>	167,875	495,571	<b>945,046</b>	591,118	2,341,338
	<b>\$33,880,263</b>	\$33,557,495	\$40,531,872	<b>\$22,753,852</b>	\$20,068,937	\$23,821,906

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 and impairment loss on machineries and equipment.

### Miscellaneous income and loss

Miscellaneous income and loss pertains to nonrecurring engineering services and gains on sale of materials (see Note 7).



## 22. Interest Expense and Bank Charges

This account consists of:

	2016	2015	2014
Interest expense on loans (Notes 15 and 16)	<b>\$3,296,499</b>	\$2,207,309	\$2,517,542
Bank charges	<b>586,721</b>	507,834	75,348
Others	<b>1,234</b>	1,242	221,913
	<b>\$3,884,454</b>	\$2,716,385	\$2,814,803

Others include interest on employee housing and car loans in 2016 and 2015, and finance lease obligations in 2014.

## 23. 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, 2016, there are five 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 PRC for Enterprises with Foreign Investment and Foreign Enterprises," the subsidiaries in the PRC 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% in 2016, 2015 and 2014 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% in 2016, 2015 and 2014 on their taxable income as reported in their respective financial statements prepared in accordance with the accounting regulations in the PRC.

#### *STHK and Monarch*

Hong Kong profits tax has been provided at the rate of 16.5% in 2016, 2015 and 2014 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 in 2016, 2015 and 2014 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 in 2016, 2015 and 2014 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 in 2016, 2015 and 2014 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 in 2016, 2015 and 2014 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 for the years 2016, 2015 and 2014. 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 40% and 25%, respectively.

*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 in Food Terminal, Inc. (FTI) - Special Economic Zone and Carmelray Industrial Park II. 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, 2016, 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:

	2016	2015
<b>Deferred tax assets:</b>		
Net operating loss carry-over	<b>\$1,169,731</b>	\$726,440
Allowance for inventory obsolescence	<b>350,404</b>	414,315
Fair value adjustment on property, plant and equipment arising from business combination	<b>282,192</b>	436,416
Allowance for doubtful accounts	<b>127,996</b>	159,768
Unamortized past service cost	<b>118,400</b>	106,931
Allowance for impairment loss on AFS	-	100,867
Others	<b>87,679</b>	124,857
	<b>\$2,136,402</b>	\$2,069,594



	2016	2015
<b>Deferred tax liabilities:</b>		
Fair value adjustment on property, plant and equipment arising from business combination	<b>\$1,457,809</b>	\$1,536,602
Unrealized foreign exchange loss on monetary assets - net	<b>157,942</b>	281,248
Unrealized foreign exchange loss on AFS	<b>30,277</b>	82,213
Prepaid expenses	<b>206,337</b>	-
Others	<b>7,326</b>	297
	<b>\$1,859,691</b>	\$1,900,360

Deferred tax assets and deferred tax liabilities are offset on per entity level and the net amount is reported in consolidated balance sheets as follows:

December 31, 2016				
	Deferred Tax Assets	Deferred Tax Liabilities	Total Deferred Tax Assets - net	Total Deferred Tax Liabilities - net
Parent Company	\$234,011	(\$188,219)	\$45,792	\$-
IMI BG	450,468	(395,821)	54,647	-
IMI CZ	276,566	-	276,566	-
IMI MX	393,547	-	393,547	-
VIA	499,618	(206,337)	499,618	(206,337)
STEL	-	(32,186)	-	(32,186)
Others	282,192	(1,037,128)	282,192	(1,037,128)
	<b>\$2,136,402</b>	<b>(\$1,859,691)</b>	<b>\$1,552,362</b>	<b>(\$1,275,651)</b>

December 31, 2015				
	Deferred Tax Assets	Deferred Tax Liabilities	Total Deferred Tax Assets - net	Total Deferred Tax Liabilities - net
Parent Company	\$242,101	(\$363,461)	\$-	(\$121,360)
IMI BG	462,083	(299,956)	162,127	-
IMI CZ	677,157	-	677,157	-
IMI MX	688,253	-	688,253	-
STEL	-	(63,887)	-	(63,887)
Others	-	(1,173,056)	-	(1,173,056)
	<b>\$2,069,594</b>	<b>(\$1,900,360)</b>	<b>\$1,527,537</b>	<b>(\$1,358,303)</b>

Others pertain to the deferred tax liabilities resulting from the acquisition of IMI EU/MX Subsidiaries.

As of December 31, 2016 and 2015, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2016	2015
Accumulated impairment losses on property, plant and equipment	<b>\$10,138,416</b>	\$10,138,416
Advances from customer	<b>1,425,009</b>	1,440,377
Excess of:		
Cost over NRV of inventories	<b>976,574</b>	1,200,211
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	<b>84,731</b>	454,878

(Forward)



	2016	2015
Accrued retirement benefits obligation	<b>\$672,537</b>	\$1,132,864
Allowance for doubtful accounts	<b>54,206</b>	67,630
	<b>\$13,351,473</b>	\$14,434,376

*STEL*

	2016	2015
Depreciation	<b>\$6,693,000</b>	\$5,747,000
Allowance for inventory obsolescence	<b>2,626,000</b>	2,170,000
Unused tax losses	-	960,000
	<b>\$9,319,000</b>	\$8,877,000

*IMI CZ*

	2016	2015
Noncurrent assets	<b>\$706,864</b>	\$1,337,664
Provisions	<b>375,769</b>	360,029
Allowance for doubtful accounts	<b>201,236</b>	69,411
Excess of cost over NRV of inventories	<b>170,991</b>	211,680
	<b>\$1,454,860</b>	\$1,978,784

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, 2016 and 2015, 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:

	2016	2015	2014
Statutory income tax	<b>30.00%</b>	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	<b>20.02%</b>	22.12%	59.96%
Income subject to gross			
income tax	<b>(21.02%)</b>	(22.56%)	(14.49%)
Difference in tax jurisdiction	<b>(8.40%)</b>	(11.15%)	(54.04%)
Income subject to ITH	<b>(1.02%)</b>	(1.27%)	(3.79%)
Interest income subjected			
to final tax	<b>(0.03%)</b>	(0.11%)	(0.02%)
Provision for income tax	<b>19.55%</b>	17.03%	17.62%



## 24. Earnings per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

	2016	2015	2014
Net income	<b>\$28,115,891</b>	\$28,789,740	\$29,117,024
Less dividends on preferred stock (Note 18)	-	-	851,495
	<b>\$28,115,891</b>	\$28,789,740	\$28,265,529
Weighted average number of common shares outstanding	<b>1,863,320,708</b>	1,858,578,676	1,632,132,778
Basic and diluted EPS	<b>\$0.015</b>	\$0.015	\$0.017

As of December 31, 2016, 2015 and 2014, the Group has no dilutive potential common shares.

## 25. Personnel Costs

Salaries, wages, and employee benefits follow:

	2016	2015	2014
Salaries and wages	<b>\$120,086,764</b>	\$118,268,993	\$130,621,781
Retirement expense under defined contribution plans	<b>6,225,339</b>	5,379,119	5,649,301
Net retirement expense under defined benefit plans	<b>1,787,924</b>	1,857,985	2,061,727
Social security costs	<b>1,432,134</b>	2,212,856	2,357,681
Others	<b>17,874,117</b>	24,939,169	39,497,070
	<b>\$147,406,278</b>	\$152,658,122	\$180,187,560

Others include expenses for employee benefits which include 13<sup>th</sup> month pay, employee insurance expenses, housing premium, leave benefits, training and seminars, employee social and recreation, bonuses, health premium, subcontracting costs and other employee benefits.

Salaries, wages, and employee benefits are allocated as follows:

	2016	2015	2014
Cost of goods sold and services (Note 19)	<b>\$116,183,955</b>	\$121,291,155	\$144,418,120
Operating expenses (Note 20)	<b>31,222,323</b>	31,366,967	35,769,440
	<b>\$147,406,278</b>	\$152,658,122	\$180,187,560

### 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, 2016.

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:

	<b>2016</b>	2015
Parent Company	<b>\$2,782,817</b>	\$4,155,241
PSi	<b>672,537</b>	1,132,864
IMI BG	<b>636,636</b>	503,507
	<b>\$4,091,990</b>	\$5,791,612



Parent Company, PSi and IMI BG

Changes in net retirement liabilities of the Parent Company, PSi and IMI BG's defined benefit plans are as follows:

	2016											December 31	
	Net Retirement Expense					Remeasurements					Foreign Currency Exchange Difference		
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	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)	\$16,365,255
Fair value of plan assets	(12,850,569)	-	(668,077)	-	(668,077)	148,480	401,659	-	-	-	401,659	695,242	(12,273,265)
Net retirement liabilities	\$5,791,612	\$1,610,453	\$207,303	(\$29,832)	\$1,787,924	(\$3,357,225)	\$401,659	\$1,830,464	\$424,077	(\$2,523,613)	\$132,587	(\$262,908)	\$4,091,990

	2015											December 31	
	Net Retirement Expense					Remeasurements					Foreign Currency Exchange Difference		
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal			
Present value of defined benefit obligation	\$17,819,360	\$1,653,303	\$801,282	\$-	\$2,454,585	(\$1,203,060)	\$-	\$1,225,579	(\$691,992)	\$533,587	(\$962,291)	(\$962,291)	\$18,642,181
Fair value of plan assets	(13,107,809)	-	(596,600)	-	(596,600)	-	188,522	-	-	-	188,522	665,318	(12,850,569)
Net retirement liabilities	\$4,711,551	\$1,653,303	\$204,682	\$-	\$1,857,985	(\$1,203,060)	\$188,522	\$1,225,579	(\$691,992)	\$722,109	(\$296,973)	(\$296,973)	\$5,791,612

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, 2016 and 2015 follows:

	2016	2015
Government securities	<b>\$8,079,938</b>	\$8,297,792
Mutual funds	<b>1,708,112</b>	313,464
Trust funds	<b>1,099,889</b>	1,285,735
Corporate bonds	<b>421,629</b>	445,040
Investment properties	<b>408,608</b>	697,238
Cash and cash equivalents	<b>318,481</b>	1,606,341
Equities	<b>236,163</b>	262,643
Liabilities	<b>(131)</b>	(271)
Others	<b>576</b>	(57,413)
	<b>\$12,273,265</b>	\$12,850,569

The plan assets include shares of stock, corporate bonds, deposit instruments and mutual funds of related parties, primarily AC, Ayala Land, Inc. (ALI), Bank of the Philippine Islands (BPI) and Ayala Life Assurance, Inc. (ALAI) as follows:

	December 31, 2016			Total
	Equity Securities	Debt Securities	Other Securities	
<b>Fair Value</b>				
BPI UITF	<b>\$342,029</b>	\$-	<b>\$755,543</b>	<b>\$1,097,572</b>
AC bonds	-	264,436	-	264,436
ALI bonds	-	31,162	-	31,162
ALAI funds	-	-	23,475	23,475
	<b>\$342,029</b>	<b>\$295,598</b>	<b>\$779,018</b>	<b>\$1,416,645</b>
<b>Carrying Value</b>				
BPI UITF	<b>\$352,133</b>	\$-	<b>\$754,712</b>	<b>\$1,106,845</b>
AC bonds	-	261,464	-	261,464
ALI bonds	-	30,169	-	30,169
ALAI funds	-	-	23,197	23,197
	<b>\$352,133</b>	<b>\$291,633</b>	<b>\$777,909</b>	<b>\$1,421,675</b>
<b>Unrealized Gain (Loss)</b>				
BPI UITF	<b>(\$11,104)</b>	\$-	<b>\$831</b>	<b>(\$10,273)</b>
AC bonds	-	2,972	-	2,972
ALI bonds	-	993	-	993
ALAI funds	-	-	278	278
	<b>(\$11,104)</b>	<b>\$3,965</b>	<b>\$1,109</b>	<b>(\$6,030)</b>

	December 31, 2015			Total
	Equity Securities	Debt Securities	Other Securities	
<b>Fair Value</b>				
BPI UITF	<b>\$867,674</b>	\$-	\$-	<b>\$867,674</b>
AC bonds	-	279,383	-	279,383
ALI bonds	-	32,407	-	32,407
BPI deposits	-	-	1,597,292	1,597,292
	<b>\$867,674</b>	<b>\$311,790</b>	<b>\$1,597,292</b>	<b>\$2,776,756</b>
<b>Carrying Value</b>				
BPI UITF	<b>\$870,118</b>	\$-	\$-	<b>\$870,118</b>
AC bonds	-	276,243	-	276,243
ALI bonds	-	31,874	-	31,874
BPI deposits	-	-	1,599,045	1,599,045
	<b>\$870,118</b>	<b>\$308,117</b>	<b>\$1,599,045</b>	<b>\$2,777,280</b>

(Forward)



	December 31, 2015			Total
	Equity Securities	Debt Securities	Other Securities	
Unrealized Gain (Loss)				
BPI UITF	(\$2,444)	\$-	\$-	(\$2,444)
AC bonds	-	3,140	-	3,140
ALI bonds	-	533	-	533
BPI deposits	-	-	(1,753)	(1,753)
	(\$2,444)	\$3,673	(\$1,753)	(\$524)

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 \$2.29 million to the defined benefit plans for 2017.

The actual return of plan assets amounted to (\$0.22 million), \$0.41 million and \$0.42 million in 2016, 2015 and 2014, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.71 to 23.41 years as of December 31, 2016 and 21.69 to 24.5 years as of December 31, 2015.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2016 and 2015:

	2016	2015
Less than one year	\$1,226,047	\$449,305
More than one year to five years	4,100,043	1,313,428
More than five years to ten years	7,968,662	3,033,503
More than ten years to fifteen years	11,725,227	6,864,091
More than fifteen years	47,427,976	70,466,253
	\$72,447,955	\$82,126,580

*Principal actuarial assumptions*

The principal actuarial assumptions used to determine retirement benefits are shown below:

	2016	2015
Discount rate	2.00% - 5.51%	2.00% - 5.09%
Turnover rate	5.75% - 10.00%	2.92% - 12.75%
Salary increase rate	3.00% - 5.00%	4.00% - 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	
		2016	2015
Discount rate	+1%	(\$1,401,526)	(\$2,013,320)
	-1%	1,646,102	2,429,869
Turnover rate	+2%	99,863	(889,152)
	-2%	(139,665)	855,599
Salary increase rate	+1%	1,778,038	2,372,810



<i>PSi</i>	-1%	<b>(1,534,545)</b>	(2,006,458)
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Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2016	2015
Discount rate	+1%	<b>(\$103,133)</b>	(\$186,960)
	-1%	<b>125,025</b>	232,012
Turnover rate	+2%	<b>(8,990)</b>	(35,418)
	-2%	<b>7,185</b>	36,780
Salary increase rate	+1%	<b>134,019</b>	222,583
	-1%	<b>(112,014)</b>	(183,624)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2016	2015
Discount rate	+1%	<b>(\$34,219)</b>	(\$29,337)
	-1%	<b>37,802</b>	30,829
Turnover rate	+2%	<b>64,864</b>	110,470
	-2%	<b>(64,022)</b>	(108,455)
Salary increase rate	+1%	<b>25,849</b>	21,447
	-1%	<b>(25,799)</b>	(21,449)

The mortality rate in 2016 and 2015 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 2016 and 2015.

The net retirement expense of the Parent Company, PSi and IMI BG under the defined benefit plans is allocated as follows:

	2016	2015	2014
Cost of goods sold and services	<b>\$1,283,259</b>	\$1,453,575	\$1,654,285
Operating expenses	<b>504,665</b>	404,410	407,442
	<b>\$1,787,924</b>	\$1,857,985	\$2,061,727

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:

	2016	2015	2014
Cost of goods sold and services	<b>\$4,866,249</b>	\$4,300,805	\$4,652,375
Operating expenses	<b>1,359,090</b>	1,078,314	996,926
	<b>\$6,225,339</b>	\$5,379,119	\$5,649,301

**26. 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 <sup>st</sup> Anniversary	5.0%
2 <sup>nd</sup> Anniversary	7.5%
3 <sup>rd</sup> 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.

On October 13, 2014, the Executive Committee of the BOD of the Parent Company approved the grant of stock options to qualified executives covering up to 35,900,000 shares at a subscription price of ₱5.91 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending September 24, 2014, net of 15% discount. Out of the total shares granted, 31,797,958 shares were subscribed by 38 executives of the Group, of which 7,821,848 shares are from unissued shares and 23,976,110 shares were issued from ESOWN Trust Account where all the previously cancelled ESOWN subscriptions were held.

The fair value of stock options granted in 2015 and 2014 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 2016, 2015 and 2014 follow:

	2016		2015		2014	
	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	143,740,493	₱6.69	135,902,428	₱6.71	107,380,812	₱6.95
Forfeitures	(2,175,240)	6.99	(2,555,329)	6.37	(3,276,342)	6.95
Subscriptions	—	—	10,393,394	5.11	31,797,958	5.91
At end of year	141,565,253	₱6.69	143,740,493	₱6.69	135,902,428	₱6.71

The balance of the subscriptions receivable amounted to \$12.33 million, \$13.13 million and \$12.91 million as of December 31, 2016, 2015 and 2014, respectively (see Note 18).

The share option expense amounted to \$0.74 million, \$1.53 million and \$0.17 million in 2016, 2015 and 2014, respectively. The accretion is recognized as an increase in "Subscriptions receivable" account and "Additional paid-in capital" account presented in the consolidated statements of changes of equity amounted to nil for the years 2016 and 2015 and \$0.08 million for 2014 (see Note 18).



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**27. 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 while IMI USA and IMI Japan are combined being the support facilities for 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, 2016, 2015 and 2014:

December 31, 2016	Philippines		Singapore/ China	Europe	Mexico	Germany (VIA)	USA/ Japan	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	3,747,017	-	-	-	4,201,296	(8,249,868)	-
Total revenue	\$220,955,530	\$33,008,941	\$265,169,899	\$242,735,718	\$65,219,469	\$19,405,163	\$4,721,572	(\$8,249,868)	\$842,966,424
Segment interest income	\$926,620	\$1,443	\$153,199	\$35,192	\$-	\$12,852	\$28	(\$835,299)	\$294,035
Segment interest expense	\$2,712,102	\$681,371	\$289,555	\$620,590	\$305,477	\$105,275	\$4,589	(\$834,505)	\$3,884,454
Segment profit (loss) before income tax	\$8,594,851	(\$2,463,930)	(\$1,660,198)	\$32,664,770	(\$2,347,967)	(\$452,949)	\$707,315	(\$219,339)	\$34,822,553
Segment provision for income tax	(1,244,834)	-	(1,699,393)	(3,476,137)	(434,797)	58,063	(9,546)	-	(6,806,644)
Segment profit (loss) after income tax	\$7,350,017	(\$2,463,930)	(\$3,359,591)	\$29,188,633	(\$2,782,764)	(\$394,886)	\$697,769	(\$219,339)	\$28,015,909
Net income (loss) attributable to the equity holders of the Parent Company	\$7,350,017	(\$2,463,930)	(\$3,354,342)	\$29,188,633	(\$2,782,764)	(\$300,153)	\$697,769	(\$219,339)	\$28,115,891

December 31, 2015	Philippines		Singapore/ China	Europe	Mexico	USA/ Japan	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	5,584,234	34,932	-	3,661,247	(9,700,138)	-
Total revenue	\$225,422,211	\$42,318,931	\$284,847,234	\$206,133,721	\$61,314,195	\$4,027,950	(\$9,700,138)	\$814,364,104
Segment interest income	\$1,140,205	\$1,831	\$288,410	\$-	\$-	\$39	(\$772,482)	\$658,003
Segment interest expense	\$1,497,509	\$580,928	\$302,780	\$394,067	\$386,870	\$3,313	(\$449,082)	\$2,716,385
Segment profit (loss) before income tax	\$13,309,497	(\$1,534,782)	\$1,508,553	\$24,379,024	\$70,081	\$470,954	(\$3,527,807)	\$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,084,167)	(2,775,475)	(196,951)	(4,277)	-	(5,905,408)
Segment profit (loss) after income tax	\$11,558,551	(\$1,628,374)	\$424,386	\$21,603,549	(\$126,870)	\$466,677	(\$3,527,807)	\$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	\$11,558,551	(\$1,628,374)	\$444,014	\$21,603,549	(\$126,870)	\$466,677	(\$3,527,807)	\$28,789,740



December 31, 2014	Philippines		Singapore/China	Europe	Mexico	USA/ Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	\$204,940,387	\$44,932,489	\$325,647,491	\$212,631,747	\$55,958,214	\$363,741	\$-	\$844,474,069
Intersegment	200,256	-	4,362,775	-	-	3,855,856	(8,418,887)	-
<b>Total revenue</b>	<b>\$205,140,643</b>	<b>\$44,932,489</b>	<b>\$330,010,266</b>	<b>\$212,631,747</b>	<b>\$55,958,214</b>	<b>\$4,219,597</b>	<b>(\$8,418,887)</b>	<b>\$844,474,069</b>
<b>Segment interest income</b>	<b>\$801,508</b>	<b>\$1,657</b>	<b>\$158,954</b>	<b>\$-</b>	<b>\$1,501</b>	<b>\$29</b>	<b>(\$767,378)</b>	<b>\$196,271</b>
<b>Segment interest expense</b>	<b>\$1,512,464</b>	<b>\$604,941</b>	<b>\$191,172</b>	<b>\$342,376</b>	<b>\$456,384</b>	<b>\$3,857</b>	<b>(\$296,391)</b>	<b>\$2,814,803</b>
Segment profit (loss) before income tax	(\$12,046,881)	(\$1,213,530)	\$25,371,530	\$28,015,334	(\$5,867,410)	(\$651,759)	\$1,584,007	\$35,191,291
Segment provision for income tax	(1,122,750)	(121,146)	(4,376,209)	(2,315,038)	1,735,815	(580)	-	(6,199,908)
<b>Segment profit (loss) after income tax</b>	<b>(\$13,169,631)</b>	<b>(\$1,334,676)</b>	<b>\$20,995,321</b>	<b>\$25,700,296</b>	<b>(\$4,131,595)</b>	<b>(\$652,339)</b>	<b>\$1,584,007</b>	<b>\$28,991,383</b>
<b>Net income (loss) attributable to the equity holders of the Parent Company</b>	<b>(\$13,169,631)</b>	<b>(\$1,111,118)</b>	<b>\$20,976,438</b>	<b>\$25,621,262</b>	<b>(\$4,131,595)</b>	<b>(\$652,339)</b>	<b>\$1,584,007</b>	<b>\$29,117,024</b>



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 \$8.25 million in 2016, \$9.70 million in 2015 and \$8.42 million in 2014, intersegment cost of sales of \$0.99 million in 2016, \$0.17 million in 2015 and \$0.20 million in 2014, and intersegment operating expenses aggregating to \$7.12 million in 2016, \$9.12 million in 2015 and \$8.22 million in 2014.

The following table presents segment assets of the Group's geographical segments as of December 31, 2016 and 2015:

	Philippines		Singapore/ China	Europe	Mexico	Germany (VIA)	USA/ Japan	Consoli- dation and Eliminations	Total
	Parent Company	PSi							
2016	\$323,142,918	\$15,430,820	\$224,745,194	\$199,169,397	\$64,528,625	\$33,074,977	\$3,249,280	(\$227,432,324)	\$635,908,887
2015	\$273,699,329	\$15,305,610	\$216,719,333	\$125,968,453	\$50,762,577	\$-	\$2,587,783	(\$168,508,426)	\$516,534,659

Segment assets do not include investments in subsidiaries and intersegment receivables amounting to \$180.13 million and \$46.88 million as of December 31, 2016, respectively, and \$125.60 million and \$42.68 million as of December 31, 2015, respectively. These are eliminated in consolidation.

Goodwill arising from the acquisition of VIA, STEL Group, IMI USA and IMI CZ amounting to \$49.17 million, \$45.13 million, \$0.66 million, and \$0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2016 and 2015.

The following table presents revenues from external customers based on customer's nationality:

	2016	2015	2014
Europe	\$458,851,700	\$426,440,705	\$418,391,628
America	204,853,252	205,280,233	208,581,244
Japan	40,861,642	52,900,214	71,620,075
Rest of Asia/Others	138,399,830	129,742,952	145,881,122
	<b>\$842,966,424</b>	<b>\$814,364,104</b>	<b>\$844,474,069</b>

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 14.97%, 13.29% and 12.63% of the Group's total revenue in 2016, 2015 and 2014, respectively.

The following table presents revenues per product type:

	2016	2015	2014
Automotive	\$377,639,245	\$349,864,147	\$320,532,486
Telecommunication	157,770,276	151,351,589	176,669,820
Industrial	150,801,775	116,711,182	106,273,619
Consumer	71,038,949	84,232,744	101,939,801
Multiple market	53,047,268	63,060,796	66,556,982
Computer peripherals	11,387,952	21,825,130	49,137,199
Medical	21,280,959	27,318,516	23,364,162
	<b>\$842,966,424</b>	<b>\$814,364,104</b>	<b>\$844,474,069</b>



The following table presents noncurrent assets based on their physical location:

	<b>2016</b>	2015
Europe	<b>\$92,406,035</b>	\$36,563,576
America	<b>31,286,745</b>	19,745,926
Rest of Asia/Others	<b>100,225,924</b>	86,067,143
	<b>\$223,918,704</b>	\$142,376,645

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:

	<b>2016</b>	2015	2014
Europe	<b>\$5,412,631</b>	\$5,599,379	\$5,800,582
America	<b>2,765,263</b>	2,013,240	1,611,235
Rest of Asia/Others	<b>16,283,900</b>	15,636,051	15,568,466
	<b>\$24,461,794</b>	\$23,248,670	\$22,980,283

## 28. Lease Commitments

### 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 2, 2014 up to December 31, 2016, renewable at the option of the Parent Company 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.

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 \$2,072 in 2016 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.

On August 27, 2014, STEL Group entered into an agreement related to the sale and leaseback of the building with DBS Trustee Limited (DBSTL), in its capacity as trustee of Soilbuild Business Space Reit. The existing light industrial building is sited on a land area of 3,993 square meters and is held under lease issued by Jurong Town Corporation (JTC) for a term of 30 years from May 1, 2000 with a covenant by JTC to grant further term of 20 years subject to the terms and conditions of the lease.

The transaction was completed on December 23, 2014 with the approval of JTC for DBSTL to takeover the lease of STEL with JTC. Pursuant to a Lease Agreement, DBSTL will lease the property to STEL for a term of ten years.



*IMI Japan*

On February 15, 2010, IMI Japan entered into a 2-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. On February 15, 2012, IMI Japan renewed its lease contract for another six years.

*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

PSi has a cancellable operating lease agreement with FTI for its plant facilities, office spaces and other facilities, for Lot Nos. 92-A-1, 92-B and 92 with lease term August 15, 2004 up to August 14, 2020 and January 1, 2016 up to December 31, 2017, respectively. The operating lease agreement with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

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.

Accrued rent amounting to \$0.08 million and \$0.45 million as of December 31, 2016 and 2015, respectively, represents the difference in accounting for rent expenses versus the rental payments under the lease contract.

The aggregate rental expense of the Group recognized on those operating lease commitments are included in the "Facilities costs and others – outsourced activities", account under cost of goods sold and services and operating expenses in the consolidated statements of income amounting to \$6.01 million in 2016, \$5.91 million in 2015, and \$5.37 million in 2014.

Future minimum rentals payable under operating leases of the Group as of December 31, 2016 and 2015 follow:

	2016	2015
Within one year	\$4,905,841	\$5,904,705
After one year but not more than five years	13,686,398	11,702,448
More than five years	4,808,727	5,727,526
	<b>\$23,400,966</b>	<b>\$23,334,679</b>



## 29. 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.

### 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, 2016, 2015 and 2014, the Group has not recorded any impairment on receivables, except for the receivable from Narra VC, 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, 2016 and 2015, the Group maintains current and savings accounts with BPI amounting to \$0.93 million and \$1.53 million, respectively.

Total interest income earned from investments with BPI amounted to \$4,247, \$25,698 and \$5,338 for the years ended December 31, 2016, 2015 and 2014, respectively.

The Parent Company has receivables from the plan assets managed by BPI amounting to \$0.30 million and \$0.20 million for the years ended December 31, 2016 and 2015, respectively.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables/Deposits		Payables	
	2016	2015	2016	2015
ACEHI	\$482,844	\$-	\$-	\$-
AC	-	-	584,070	-
Innove Communication Inc. (ICI)	-	-	276	295
Globe Telecom, Inc. (GTI)	-	-	6,023	4,386
	\$482,844	\$-	\$590,369	\$4,681

- i. 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.
- ii. Payables to AC are nontrade in nature and pertain to transaction costs paid in advance in relation to VIA acquisition.
- 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.



- c. Outstanding balances of transactions with subsidiaries from the Parent Company's point of view follow:

	Receivables		Payables	
	2016	2015	2016	2015
IMI EU/MX Subsidiaries	\$24,100,160	\$22,298,478	\$8,570	\$71
PSi	16,722,133	13,471,568	98,735	99,229
IMI Singapore	1,464,524	1,010,247	58,353	-
IMI Japan	992,531	992,795	604,196	527,563
IMI USA	261,963	251,917	370,856	292,243
STEL	191,271	214,955	1,449,193	1,756,603
IMI ROHQ	25,213	362,925	779,761	1,162,377
	<b>\$43,757,795</b>	<b>\$38,602,885</b>	<b>\$3,369,664</b>	<b>\$3,838,086</b>

The outstanding balances are eliminated upon consolidation.

- i. Receivables from IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan, 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.

Advances to PSi and IMI EU/MX Subsidiaries have a 90-day term subject to interest rates ranging from 1.00% to 2.88% in 2016, from 1.25% to 2.85% in 2015 and from 2.33% to 2.73% in 2014.

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.

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.

- 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 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		
	2016	2015	2014	2016	2015	2014
BPI	\$4,247	\$25,698	\$6,021	\$-	\$-	\$-
Manila Water Asia Pacific (MWAP)	-	-	9,868	-	-	-
TLI	-	-	7,371	1,045,948	1,093,559	1,115,426
AC	-	-	-	687,142	-	-
AG Legal	-	-	-	197,308	93,108	118,774
ICI	-	-	-	92,923	88,936	55,971
GTI	-	-	-	85,755	86,260	73,337
	<b>\$4,247</b>	<b>\$25,698</b>	<b>\$23,260</b>	<b>\$2,109,076</b>	<b>\$1,361,863</b>	<b>\$1,363,508</b>



Revenue/income from its affiliates pertains to the following transactions:

- i. Interest income earned from investments and gain on foreign currency forwards with BPI.
- ii. Rental income earned by STEL for the lease of its office premises to MWAP in 2014.
- iii. Revenue from TLI pertains to administrative services such as professional, clerical, financial and accounting services provided by the Parent Company to TLI in 2014.

Expenses incurred from related party transactions include:

- i. Rental expense from the lease contract with TLI (see Note 28).
  - ii. Transaction costs related to VIA acquisition advanced by AC.
  - iii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
  - iv. Building rental, leased lines, internet connections and ATM connections with ICI.
  - v. Billings for cellphone charges and WiFi connections with GTI.
- 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 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:

	2016	2015
Short-term employee benefits	<b>\$7,940,519</b>	\$8,825,529
Post-employment benefits	<b>280,248</b>	361,372
Share-based payments	<b>643,098</b>	1,442,721
	<b>\$8,863,865</b>	\$10,629,622

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**30. 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, receivables, accounts payables and accrued expenses, with maturity of less than one year, 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, 2016 and 2015:

	Carrying Amounts		Fair Values	
	2016	2015	2016	2015
<b>Financial assets:</b>				
Derivative assets	\$67,062	\$66,117	\$67,062	\$66,117
AFS financial assets	740,949	583,510	740,949	583,510
	<b>\$808,011</b>	<b>\$649,627</b>	<b>\$808,011</b>	<b>\$649,627</b>
<b>Financial liabilities:</b>				
Derivative liabilities	\$10,567	\$10,567	\$10,567	\$10,567
Financial liabilities on put options	11,334,282	–	11,334,282	–
Noncurrent portion of:				
Long-term debt	121,144,043	34,648,756	118,083,096	33,311,349
	<b>\$132,488,892</b>	<b>\$34,659,323</b>	<b>\$129,427,945</b>	<b>\$33,321,916</b>

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. 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. The risk-free rate used range from 0.02% to 0.15%. 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 the acquiree 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.

Noncurrent portion of long-term debt - The fair value of long-term debt that is re-priced on a semi-annual basis 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 2016 and 2015 ranged from 1.00% to 2.91% and from 1.20% to 3.10%, respectively.



Fair Value Hierarchy

The following tables provide the fair value hierarchy of the Group's assets and liabilities:

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
<b>Assets measured at fair value:</b>				
Derivative assets	\$67,062	\$-	\$-	\$67,062
AFS financial assets	740,949	-	-	740,949
	<b>\$808,011</b>	<b>\$-</b>	<b>\$-</b>	<b>\$808,011</b>
<b>Liabilities measured at fair value:</b>				
Derivative liabilities	\$10,567	\$-	\$-	\$10,567
Financial liabilities on put options	-	-	11,334,282	11,334,282
	<b>\$10,567</b>	<b>\$-</b>	<b>\$11,334,282</b>	<b>\$11,344,849</b>
<b>Liabilities for which fair values are disclosed:</b>				
Long-term debt	\$-	\$-	\$118,083,096	\$118,083,096

December 31, 2015				
Fair Value Measurement Using				
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets measured at fair value:</b>				
Derivative assets	\$66,117	\$-	\$-	\$66,117
AFS financial assets	583,510	-	-	583,510
	<b>\$649,627</b>	<b>\$-</b>	<b>\$-</b>	<b>\$649,627</b>
<b>Liabilities measured at fair value -</b>				
Derivative liabilities	\$10,567	\$-	\$-	\$10,567
<b>Liabilities for which fair values are disclosed -</b>				
Long-term debt	\$-	\$-	\$33,311,349	\$33,311,349

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	1%-3% (2%)	1% increase in growth rate would result in an increase in fair value by \$0.91 million. Decrease in growth rate by 1% would result in a fair value decrease of \$0.65 million.
		Discount rate	10%-13% (12%)	1% increase in discount rate would result in a decrease in fair value by \$0.78 million. Decrease in discount rate by 1% would result in a fair value increase of \$1.44 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by \$2.31 million. Decrease in the probability to 1% would result in a decrease in fair value by \$5.60 million.

### 31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of trust receipts and loans 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, 2016 and 2015. 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	
	2016	2015
+100	<b>(\$85,505)</b>	(\$686,214)
-100	<b>85,505</b>	686,214

The following table shows the information about the Group's debt as of December 31, 2016 and 2015 that are exposed to interest rate risk presented by maturity profile:

	2016	2015
Within one year	<b>\$7,051,886</b>	\$40,775,609
One to five years	<b>1,498,600</b>	27,845,749
	<b>\$8,550,486</b>	\$68,621,358

#### 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:

	2016				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
<b>Financial assets</b>					
Cash and cash equivalents*	<b>\$75,816,054</b>	<b>\$10,648,980</b>	\$-	\$-	<b>\$86,465,034</b>
<b>Financial liabilities</b>					
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
Trust receipts and loans payable	-	34,341,720	17,103,449	-	51,445,169
Current portion of long-term debt	-	5,222,000	2,108,200	854,853	8,185,053
Noncurrent portion of long-term debt	-	115,367	338,288	122,463,114	122,916,769
	<b>11,334,282</b>	<b>220,739,142</b>	<b>20,319,009</b>	<b>123,317,967</b>	<b>375,710,400</b>
	<b>\$64,481,772</b>	<b>(\$210,090,162)</b>	<b>(\$20,319,009)</b>	<b>(\$123,317,967)</b>	<b>(\$289,245,366)</b>



	2015				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Financial assets					
Cash and cash equivalents*	\$67,108,584	\$34,338,174	\$-	\$-	\$101,446,758
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	-	103,563,112	-	-	103,563,112
Accrued expenses**	-	11,753,000	-	-	11,753,000
Accrued compensation and benefits	-	23,263,280	-	-	23,263,280
Nontrade payables	-	5,121,760	-	-	5,121,760
Employee-related payables**	-	149,444	-	-	149,444
Accrued interest payable	-	-	509,027	-	509,027
Derivative liabilities	-	10,567	-	-	10,567
Due to related parties	-	4,681	-	-	4,681
Others	-	1,538,689	-	-	1,538,689
Trust receipt and loans payable	-	-	42,449,644	-	42,449,644
Current portion of long-term debt	-	-	43,296,039	-	43,296,039
Noncurrent portion of long-term debt	-	187,856	563,568	34,836,960	35,588,384
	-	145,592,389	86,818,278	34,836,960	267,247,627
	\$67,108,584	(\$111,254,215)	(\$86,818,278)	(\$34,836,960)	(\$165,800,869)

\* Excluding cash on hand.

\*\* Excluding statutory payables.

#### Credit lines

The Group has credit lines with different financing institutions as of December 31, 2016 and 2015, as follows:

Financial Institution	2016		2015	
	Credit Limit	Available Credit Line	Credit Limit	Available Credit Line
Local:				
USD	<b>54,000,000</b>	<b>44,550,000</b>	64,000,000	54,800,000
PHP	<b>100,000,000</b>	<b>100,000,000</b>	100,000,000	100,000,000
Foreign:				
USD	<b>89,318,841</b>	<b>56,318,841</b>	76,544,838	43,544,838
Singapore Dollar (SGD)	<b>17,000,000</b>	<b>17,000,000</b>	25,000,000	25,000,000
EUR	<b>9,830,000</b>	<b>6,897,783</b>	9,830,000	7,626,802

#### 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, 2016 and 2015 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 37% and 40% of trade receivables relating to three major customers as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the aging analysis of receivables and miscellaneous deposits follows:

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	1,265,782	1,265,782	-	-	-	-	-	-
	<b>\$199,936,497</b>	<b>\$161,734,593</b>	<b>\$24,245,926</b>	<b>\$5,894,385</b>	<b>\$2,942,206</b>	<b>\$1,634,146</b>	<b>\$1,751,498</b>	<b>\$1,733,743</b>
Miscellaneous deposits	\$2,512,368	\$2,512,368	\$-	\$-	\$-	\$-	\$-	\$-

December 31, 2015								
	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	\$165,831,122	\$141,317,546	\$18,807,293	\$3,520,896	\$196,297	\$281,231	\$1,164,059	\$543,800
Nontrade	1,737,293	1,223,268	105,264	71,430	73,791	77,572	118,206	67,762
Receivable from insurance	1,066,414	-	-	-	-	-	-	1,066,414
Receivable from employees	735,464	687,268	6,193	6,153	1,695	74	16,643	17,438
Due from related parties	196,341	196,341	-	-	-	-	-	-
Others	1,420,361	1,420,361	-	-	-	-	-	-
	<b>\$170,986,995</b>	<b>\$144,844,784</b>	<b>\$18,918,750</b>	<b>\$3,598,479</b>	<b>\$271,783</b>	<b>\$358,877</b>	<b>\$1,298,908</b>	<b>\$1,695,414</b>
Miscellaneous deposits	\$1,897,070	\$1,897,070	\$-	\$-	\$-	\$-	\$-	\$-

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2016 and 2015:

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	1,265,782	-	-	-	-	1,265,782
AFS financial assets	740,949	-	-	-	1,753,589	2,494,538
Miscellaneous deposits	2,512,368	-	-	-	-	2,512,368
	<b>\$100,143,214</b>	<b>\$151,309,730</b>	<b>\$-</b>	<b>\$-</b>	<b>\$39,955,493</b>	<b>\$291,408,437</b>

December 31, 2015						
	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	\$101,497,653	\$-	\$-	\$-	\$-	\$101,497,653
Receivables:						
Trade	4,456,008	136,861,538	-	-	24,513,576	165,831,122
Nontrade	1,223,268	-	-	-	514,025	1,737,293
Receivable from insurance	-	-	-	-	1,066,414	1,066,414
Receivable from employees	687,268	-	-	-	48,196	735,464
Due from related parties	196,341	-	-	-	-	196,341
Others	1,420,361	-	-	-	-	1,420,361
AFS financial assets	583,510	-	-	-	1,753,589	2,337,099
Miscellaneous deposits	1,897,070	-	-	-	-	1,897,070
	<b>\$111,961,479</b>	<b>\$136,861,538</b>	<b>\$-</b>	<b>\$-</b>	<b>\$27,895,800</b>	<b>\$276,718,817</b>



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 USD against other currencies. As a result of significant operating expenses in PHP, the Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2015 and 2014, 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 53% and 47% of the Group's sales for the years ended December 31, 2016 and 2015, respectively, and 43% and 39% of costs for the years ended December 31, 2016 and 2015, 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:

#### Philippine Peso (₱)

	2016		2015	
	In USD	In PHP	In USD	In PHP
Cash and cash equivalents	\$3,188,406	₱158,548,273	\$10,517,705	₱494,950,826
Receivables	676,493	33,639,648	764,995	35,999,784
Miscellaneous deposits	1,059,645	52,692,422	1,221,963	57,504,123
Accounts payable and accrued expenses	(17,222,268)	(856,403,199)	(19,141,155)	(900,760,226)
Net retirement liabilities	(3,174,729)	(157,868,158)	(5,288,105)	(248,852,011)
Other noncurrent liabilities	(398,392)	(19,810,638)	(420,976)	(19,810,638)
Net foreign currency-denominated liabilities	(\$15,870,845)	(₱789,201,652)	(\$12,345,573)	(₱580,968,142)

#### Euro (€)

	2016		2015	
	In USD	In EUR	In USD	In EUR
Cash and cash equivalents	\$19,841,755	€18,998,233	\$22,622,321	€20,588,206
Receivables	73,091,714	69,984,406	37,983,693	34,568,341
Accounts payable and accrued expenses	(49,795,811)	(47,678,869)	(18,370,780)	(16,718,948)
Long-term debt	(7,457,958)	(7,140,902)	(8,621,358)	(7,846,158)
Net foreign currency-denominated assets	\$35,679,700	€34,162,868	\$33,613,876	€30,591,441



*Renminbi (RMB)*

	2016		2015	
	In USD	In RMB	In USD	In RMB
Cash and cash equivalents	\$16,577,471	RMB115,209,331	\$12,006,713	RMB77,879,699
Receivables	60,578,249	421,003,887	61,492,725	398,863,107
Accounts payable and accrued expenses	(42,505,531)	(295,402,952)	(35,463,931)	(230,031,336)
Net foreign currency-denominated assets	\$34,650,189	RMB240,810,266	\$38,035,507	RMB246,711,470

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, 2016 and 2015. 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	
		2016	2015
PHP	+1%	\$88,429	\$82,143
	-1%	(88,429)	(82,143)
EUR	+1%	(211,361)	(323,885)
	-1%	211,361	323,885
RMB	+1%	(197,413)	482,952
	-1%	197,413	(482,952)

Derivatives

The Parent Company and IMI BG entered into various short-term currency forwards with an aggregate notional amount of \$9.00 million in 2016 and \$11.00 million and €16.25 million (\$14.79 million) in 2015. As of December 31, 2016 and 2015, the outstanding forward contracts have a net positive fair value of \$0.06 million. The changes in fair value of currency forwards recognized in 2016 and 2015 amounted to \$0.11 million loss and \$0.23 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, 2016 and 2015 follow:

	2016	2015
<b>Derivative assets:</b>		
At beginning of year	\$66,117	\$-
Fair value of currency forwards	100,807	243,475
Fair value of settled currency forwards	(99,862)	(177,358)
At end of year	\$67,062	\$66,117
<b>Derivative liabilities:</b>		
At beginning of year	\$10,567	\$-
Fair value of currency forwards	214,262	18,313
Fair value of settled currency forwards	(214,262)	(7,746)
At end of year	\$10,567	\$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, 2016 and 2015.

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.

	2016	2015
Trust receipts and loans payable	<b>\$51,445,169</b>	\$42,297,356
Long-term bank borrowings	<b>122,742,296</b>	68,621,358
Total bank debt	<b>174,187,465</b>	110,918,714
Less cash and cash equivalents	<b>86,548,735</b>	101,532,409
Net bank debt	<b>\$87,638,730</b>	\$9,386,305
Equity attributable to equity holders of the Parent Company	<b>\$236,606,259</b>	\$232,242,928
Debt-to-equity ratio	<b>0.74:1</b>	0.48:1
Net debt-to-equity ratio	<b>0.37:1</b>	0.04:1

The Group is not subject to externally imposed capital requirements.

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### 32. 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.

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### 33. 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 \$1.90 million for 2016 and insurance receivables amounting to \$0.79 million in relation to insurance for damages to property, plant and equipment.

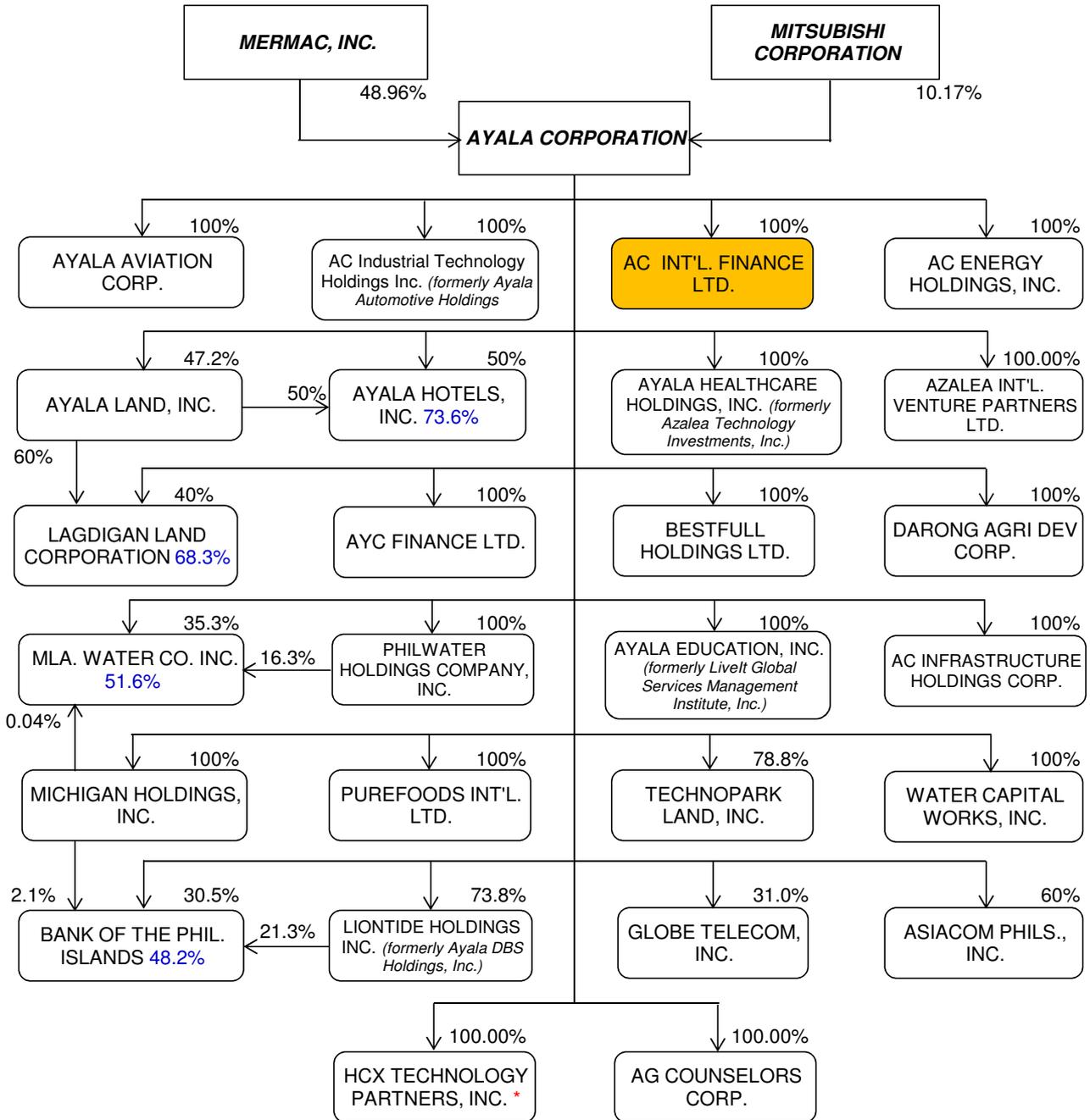
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### 34. Events after Balance Sheet Date

On February 15, 2017, the Parent Company's Board of Directors 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.



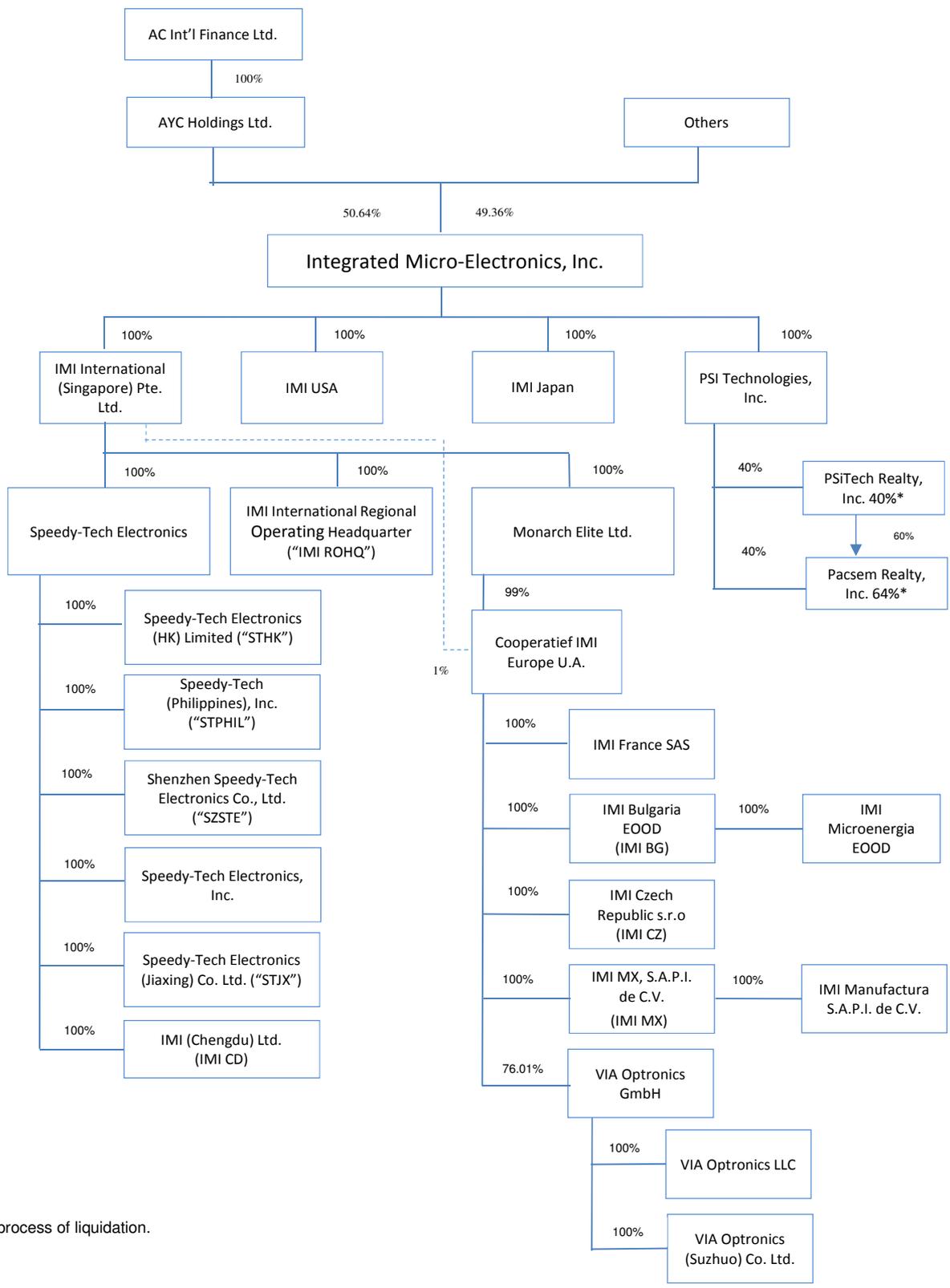
**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN  
THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES  
As of December 31, 2016**



\* Investment in HCXI was made in October 2016

**Legend:**

% of ownership appearing on top of the box - direct economic % of ownership  
 % of ownership appearing inside the box - effective % of economic ownership



\* In the process of liquidation.

**Integrated Micro-electronics, Inc. and Subsidiaries**  
**Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2016**

		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework for Financial Reporting				
<b>Philippine Financial Reporting Standards (PFRS) Practice Statement Management Commentary</b>		✓		
<b>PFRS</b>				
<b>PFRS 1</b>	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>			✓
<b>PFRS 2</b>	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		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	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		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓

		Adopted	Not Adopted	Not Applicable
<b>PFRS 7</b>	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		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9 (2014)</b>	Financial Instruments	NOT EARLY ADOPTED		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	PFRS 10 (Amendments) - <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>			✓
	PFRS10 (Amendments) – <i>Investment Entities: Applying the Consolidation exceptions</i>			✓
	PFRS 10 (Amendments) - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>a</sup></i>	NOT EARLY ADOPTED		
<b>PFRS 11</b>	Joint Arrangements			✓
	PFRS 11 (Amendments) - <i>Accounting for Acquisitions of Interests in Joint Operations</i>			✓
<b>PFRS 12</b>	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
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	NOT EARLY ADOPTED		
<b>PFRS 16</b>	Leases	NOT EARLY ADOPTED		
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	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>	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	PAS 7 (Amendments) - <i>Disclosure Initiative</i>	NOT EARLY ADOPTED		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Date	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	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		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	PAS 16 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>			✓
	PAS 16 (Amendments) - <i>Bearer Plants</i>			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	PAS 19 (Amendments) - <i>Defined Benefit Plans: Employee Contributions</i>	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign	✓		

		Adopted	Not Adopted	Not Applicable
	Exchange Rates			
	PAS 21 (Amendments) - <i>Net Investment in a Foreign Operation</i>	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	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>			✓
<b>PAS 28 (Amended)</b>	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<sup>a</sup></i>	NOT EARLY ADOPTED		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	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>	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	PAS 36 (Amendments) - <i>Recoverable Amount Disclosures for Non-financial Assets</i>	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		

		Adopted	Not Adopted	Not Applicable
<b>PAS 38</b>	Intangible Assets	✓		
	PAS 38 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>			✓
<b>PAS 39</b>	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>			✓
<b>PAS 40</b>	Investment Property			✓
	PAS 40 (Amendments) - <i>Transfers of Investment Property</i>	NOT EARLY ADOPTED		
<b>PAS 41</b>	Agriculture			✓
	PAS 41 (Amendments) - <i>Bearer Plants</i>			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining whether an Arrangement Contains a Lease	✓		

		Adopted	Not Adopted	Not Applicable
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
<b>IFRIC 15<sup>a</sup></b>	Agreements for the Construction of Real Estate			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	NOT EARLY ADOPTED		
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓

		Adopted	Not Adopted	Not Applicable
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓
<b>Annual Improvements to PFRSs (2010-2012 Cycle)</b>				
<b>PAS 16</b>	Property, Plant and Equipment - <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization</i>			✓
<b>PAS 38</b>	Intangible Assets - <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization</i>			✓
<b>PAS 24</b>	Related Party Disclosures - <i>Key Management Personnel</i>	✓		
<b>PFRS 2</b>	Share-based Payment - <i>Definition of Vesting Condition</i>	✓		
<b>PFRS 3</b>	Business Combinations - <i>Accounting for Contingent Consideration in a Business Combination</i>	✓		
<b>PFRS 8</b>	Operating Segments - <i>Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets</i>			✓
<b>Annual Improvements to PFRSs (2011-2013 Cycle)</b>				
<b>PAS 40</b>	Investment Property			✓
<b>PFRS 3</b>	Business Combinations - <i>Scope Exceptions for Joint Arrangements</i>			✓
<b>PFRS 13</b>	Fair Value Measurement - <i>Portfolio Exception</i>			✓
<b>Annual Improvements to PFRSs (2012-2014 Cycle)</b>				
<b>PAS 19</b>	Employee Benefits - <i>Regional Market Issue Regarding Discount Rate</i>			✓
<b>PAS 34</b>	<i>Disclosure of Information 'Elsewhere in the Interim Financial Report'</i>			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations - <i>Changes in Methods of Disposal</i>			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures - <i>Servicing Contracts</i>			✓
<b>PFRS 7</b>	Financial Instruments: <i>Applicability of the amendments to PFRS 7 to condensed interim financial statements</i>			✓

		Adopted	Not Adopted	Not Applicable
<b>Annual Improvements to PFRSs (2014-2016 Cycle)</b>				
<b>PFRS 12</b>	<i>Clarification of the Scope of the Standard</i>	NOT EARLY ADOPTED		
<b>PAS 28</b>	<i>Measuring an Associate or Joint Venture at Fair Value</i>	NOT EARLY ADOPTED		

<sup>a</sup>The 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, 2016**

(in U.S. Dollars)

<b>Unappropriated retained earnings, as adjusted for dividend distribution, beginning</b>		<b>\$17,528,097</b>
<b>Add: Net income actually earned/realized during the year</b>		
Net loss during the year closed to Retained Earnings	7,350,017	
Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(81,497)	
Subtotal	<u>7,268,520</u>	
<b>Net income actually earned during the year</b>		<b>7,268,520</b>
Add (less):		
Dividend declarations during the year	(8,620,747)	<b>(8,620,747)</b>
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END</b>		<b>\$16,175,870</b>

**INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES**  
**FINANCIAL RATIOS**  
**DECEMBER 31, 2016 and 2015**

<b>Ratios</b>	<b>Formula</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>
(i) Current ratio	Current assets / Current Liabilities	<b>1.51</b>	1.54
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	<b>0.74</b>	0.48
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	<b>2.69</b>	2.22
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	<b>9.89</b>	13.52
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	<b>12.0%</b>	11.5%
Net profit margin	Net Income after Tax / Revenues	<b>3.3%</b>	3.5%
EBITDA margin	EBITDA / Revenues	<b>7.7%</b>	7.2%
Return on assets	Net Income after Tax / Total Asset	<b>4.4%</b>	5.6%
Return on equity	Net Income after Tax / Average equity attributable to parent	<b>12.0%</b>	12.1%
Return on common equity	Net Income after Tax / Average common equity attributable to parent	<b>12.0%</b>	12.8%

(in US\$'000)

	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>
Current Assets	406,974,816	370,014,899
Current Liabilities	270,091,223	240,601,585
Total Assets	635,908,888	516,534,659
Bank Debts	174,187,465	110,918,714
Equity attributable to parent	236,606,260	232,242,928
Average equity attributable to parent	234,424,594	238,147,065
Average common equity attributable to parent	234,424,594	225,272,235
Revenues	842,966,424	814,364,104
Gross Profit	101,309,381	94,031,471
Net income attributable to equity holders of the parent	28,115,891	28,789,740
Earnings before interest and taxes	38,412,972	36,733,903
Interest expense	3,884,454	2,716,385
EBITDA	64,966,916	58,762,594

**Integrated Microelectronics, Inc. and Subsidiaries**

**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

**December 31, 2016**

*(in U.S. Dollars)*

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
<b>Accounts receivable -trade</b>							
Speedy-Tech Electronics (STEL) Group			-		-		
IMI International (Singapore) Pte Ltd.	-						-
Monarch and EPIQ Subsidiaries	-	106,597	-		106,597		106,597
PSi Technologies Inc.	-		-		-		-
IMI USA	-	10,000	-		10,000		10,000
<b>Accounts receivable -nontrade</b>							
STEL Group	214,955		(23,684)		191,271		191,271
Monarch and EPIQ Subsidiaries	1,177,887		(341,409)		836,477		836,477
PSi Technologies Inc.	13,471,568	3,250,565			16,722,133		16,722,133
IMI International (Singapore) Pte Ltd.	200,000	454,277			654,277		654,277
IMI Japan	992,795		(264)		992,531		992,531
IMI USA	1,917		(1,917)		-		-
IMI International ROHQ	-	24,924	-		24,924		24,924
<b>Due From</b>							
STEL Group	-		-		-		-
Monarch and EPIQ Subsidiaries	21,120,591	2,036,495			23,157,086		23,157,086
IMI International (Singapore) Pte Ltd.	810,247				810,247		810,247
IMI Japan	-				-		-
IMI USA	250,000	1,963			251,963		251,963
IMI International ROHQ	362,925		(362,636)		290		290
<b>Total</b>	<b>38,602,884</b>	<b>5,884,821</b>	<b>(729,910)</b>	<b>-</b>	<b>43,757,795</b>	<b>-</b>	<b>43,757,795</b>

These related party receivables are collectible on demand.

**Integrated Micro-Electronics, Inc. and Subsidiaries**  
**Schedule F. Indebtedness to Related Parties**  
**December 31, 2016**  
*(in U.S. Dollars)*

*Indebtedness to Related Parties (Long-term Loans from Related Companies)*

<b>Name of Related Party</b>	<b>Balance at Beginning of Period</b>	<b>Balance at End of Period</b>
<b>NOT APPLICABLE</b>		

*Related party payables eliminated during consolidation:*

<b>Name of Related Party</b>	<b>Balance at Beginning of Period</b>	<b>Balance at End of Period</b>
<b>Accounts Payable - Trade</b>		
Speedy-Tech Electronics Ltd.	1,033,873	210,546
IMI USA	22,608	26,128
Monarch and EPIQ Subsidiaries	71	
<b>Accounts Payable - Nontrade</b>		
Speedy-Tech Electronics Ltd.	188,089	191,530
IMI USA	267,588	311,172
IMI International ROHQ	1,162,377	609,490
IMI International (Singapore) Pte Ltd.		58,352
IMI Japan		142,315
<b>Due To</b>		
Speedy-Tech Electronics Ltd.	534,642	1,047,118
PSi Technologies Inc.	99,229	98,735
IMI Japan	527,563	461,881
IMI USA	2,047	33,555
IMI International ROHQ	-	170,271
Monarch and EPIQ Subsidiaries		8,570
<b>Total</b>	<b>3,838,086</b>	<b>3,369,663</b>

Note 1. These related party liabilities are payable on demand.