



## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **INTEGRATED MICRO-ELECTRONICS, INC.** will be held at the Ballroom 2 of the Fairmont Makati, 1 Raffles Drive, Makati Ave., Makati City, on **Monday, April 6, 2015** at **3:00 o'clock in the afternoon** with the following

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

1. Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. Ratification of All Acts and Resolutions of the Board of Directors and Management Adopted During the Preceding Year
5. Amendment of the Third Article of the Articles of Incorporation to State the Specific Principal Office Address in Compliance with SEC Memorandum Circular No. 6 (2014)
6. Election of Directors (including the Independent Directors)
7. Election of Auditors and Fixing of their 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 13, 2015** are entitled to notice of, and to vote at, this meeting.

Makati City, January 30, 2015.

**SOLOMON M. HERMOSURA**  
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 24, 2015** to the Office of the Corporate Secretary at 3/F Tower One, Ayala Triangle, Ayala Avenue, Makati City. Validation of proxies shall be held on **March 26, 2015** at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

<sup>1</sup> See next page for the explanation for each agenda item for stockholders' approval.

## **EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL**

### Approval of minutes of previous meeting

The minutes of the meeting held on April 4, 2014 are available 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.

*Remarks:* A resolution on this agenda item must be approved with the majority of the votes of the stockholders present and eligible to vote.

### Annual report

The financial statements as of December 31, 2014 (FS) will be presented for approval by the stockholders. Prior thereto, the Chairman, Mr. Jaime Augusto Zobel de Ayala and the President and Chief Executive Officer, Mr. Arthur R. Tan, will deliver a report to the stockholders on the performance of the company in 2014 and the outlook for 2015. The FS will be embodied in the Information Statement to be sent to the stockholders at least 15 business days prior to the meeting.

*Remarks:* A resolution on this agenda item must be approved with the majority of the votes of the stockholders present and eligible to vote.

### Ratification of all acts and resolutions of the Board and management adopted during the preceding year

Ratification by the stockholders will be sought for all the acts and the resolutions of the Board of Directors, Executive Committee, and other board committees and all the acts of management of the company taken or adopted since the annual stockholders' meeting on April 4, 2014 until April 6, 2015. The acts and resolutions of the Board and its committees include approval of contracts and agreements, projects and investments, treasury matters and acts and resolutions covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange. The acts of management were those taken to implement the resolutions of the Board or its committees or taken in the general conduct of business.

*Remarks:* A resolution on this agenda item must be approved with the majority of the votes of the stockholders present and eligible to vote.

### Amendment of the Third Article of the Articles of Incorporation to state the specific principal office address

Approval by the stockholders will be sought for the amendment of the Third Article of the Articles of Incorporation to change the principal office address of the Company from Metro Manila, Philippines to North Science Park, Laguna Technopark-Special Economic Zone, Biñan, Laguna, in compliance with the Securities and Exchange Commission Memorandum Circular No. 6, Series of 2014. The Board approved the amendment during its meeting on December 2, 2014,

*Remarks:* A resolution on this agenda item must be approved by at least 2/3 of the issued and outstanding capital stock.

### Election of directors (including the independent directors)

In accordance with the By-laws, the Manual of Corporate Governance and the SEC rules, any stockholder, including minority stockholders, may submit to the Nomination Committee nominations to the Board by February 18, 2015. 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.

*Remarks:* The directors are elected by plurality of votes using the cumulative voting method. The tally of votes will be reflected in the minutes of the meeting.

### Election of auditors and fixing of their remuneration

The Audit Committee will endorse to the stockholders the appointment of the external auditor, SyCip Gorres Velayo & Co., for the ensuing year as well as their proposed remuneration. The profile of the external auditor will be provided in the Information Statement and in the company website for examination by the stockholders.

*Remarks:* A resolution on this agenda item must be approved with the majority of the votes of the stockholders present and eligible to vote.

### 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 also propose to consider such other relevant matters or issues.

## 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*, with power of substitution, to present and vote all shares registered in his/her/its name at the annual meeting of stockholders of the Company on April 6, 2015 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. Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>4. Amendment of the Third Article of the Articles of Incorporation to state the specific principal office address in compliance with SEC Memorandum Circular No. 6, series of 2014<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>5. Election of Directors</p> | <p>6. Election of SyCip Gorres Velayo &amp; Co. as the independent auditor and fixing of its remuneration.<br/> <input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>7. 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

	No. of Votes
Jaime Augusto Zobel de Ayala	_____
Fernando Zobel de Ayala	_____
Arthur R. Tan	_____
Jose Ignacio A. Carlos	_____
Edgar O. Chua	_____
John Eric T. Francia	_____
Alelie T. Funcell	_____
Delfin C. Gonzalez, Jr.	_____
Delfin L. Lazaro	_____
Hiroshi Nishimura	_____
Rafael Ma. C. Romualdez	_____

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

\_\_\_\_\_  
 DATE

**THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE MARCH 24, 2015, THE DEADLINE FOR SUBMISSION OF PROXIES.**

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 EXPRESSED 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: 000-049-747-000

6. Address of Principal Office: 34/F Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

7. Registered Business Address: North Science Avenue  
Special Export Processing Zone  
Laguna Technopark  
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 6, 2015  
Time - 3:00 P.M.  
Place - Ballroom 2, Fairmont Makati  
1 Raffles Drive, Makati Avenue  
Makati City

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

March 12, 2015

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	1,856,899,921	₱1,856,899,921.00

b. Debt Securities - None

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

Yes                       No

1,350,636,697 common shares are listed with the Philippine Stock Exchange ("PSE"), including 15,892,124 treasury shares.

\* \* \*

## 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 6, 2015
- Time - 3:00 P.M.
- Place - Ballroom 2, Fairmont Makati  
1 Raffles Drive, Makati Avenue  
Makati City
- Principal Office - 34/F Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

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

March 12, 2015

### 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

There are no matters or proposed corporate actions which may give rise to appraisal rights under Title X of the Corporation Code of the Philippines.

#### 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, 2015:**
  - 1,856,899,921 Common shares
  - 1,300,000,000 Preferred shares
- Number of votes entitled:** one (1) vote per share for Common and Preferred shares
- b. All **stockholders of record** as of February 13, 2015 are entitled to 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 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, 2015

<b>Title of Class</b>	<b>Name, address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent of outstanding Shares</b>
Preferred	Ayala Corporation <sup>1</sup> 34/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	Ayala Corporation <sup>2</sup>	Filipino	1,064,899,372	33.7324%
Common				180,492	0.0057%
Common	AYC Holdings, Ltd. <sup>3</sup> 33/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd. <sup>4</sup>	BVI	945,537,373	29.9515%
Common	PCD Nominee Corporation (Filipino) <sup>5</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>6</sup>	Filipino	288,674,081	9.1442%
Common	PCD Nominee Corporation (Filipino) <sup>5</sup> 37/F Tower One, The Enterprise Center, 6766 Ayala	Resins, Inc. <sup>7</sup>	Filipino	239,412,304	7.5838%

<sup>1</sup> The Chairman of Ayala Corporation (AC), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.

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

<sup>3</sup> AYC Holdings, Ltd. (AYC) is a stockholder of the Company.

<sup>4</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.

<sup>5</sup> The PCD is not related to the Company.

<sup>6</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>7</sup> Resins, Inc. (Resins) is a customer of a participant of PCD. 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.

	Avenue cor. Paseo de Roxas, Makati City				
Preferred	Resins, Inc. <sup>8</sup> E. Rodriguez Ave., Pasig City	Resins, Inc. <sup>7</sup>	Filipino	222,222,107	7.0393%
Common	EPIQ NV <sup>9</sup> Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV <sup>10</sup>	Belgian	200,000,000	6.3353%

(ii) Security ownership of directors and management as of January 31, 2015.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of All Class
<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	Arthur R. Tan	20,123,552 (direct & indirect)	Filipino	0.6374%
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	Delfin C. Gonzalez, Jr.	100 (direct)	Filipino	0.0000%
Common	Hiroshi Nishimura	600,115 (direct & indirect)	Japanese	0.0190%
Common	Alelie T. Funcell	115 (direct)	Filipino	0.0000%
Common	John Eric T. Francia	100 (direct)	Filipino	0.0000%
<i>CEO and Most Highly Compensated Officers</i>				
Common	Arthur R. Tan	20,123,552 (direct & indirect)	Filipino	0.6374%
Common	Gilles Bernard	1,280,475 (indirect)	French	0.0406%
Common	Linardo Z. Lopez	3,822,525 (direct & indirect)	Filipino	0.1211%
Common	Anthony Raymond P. Rodriguez	172,561 (direct & indirect)	Filipino	0.0055%
Common	Jerome S. Tan	3,241,033 (indirect)	Singaporean	0.1027%
<i>Other Executive Officers</i>				
Common	Solomon M. Hermosura	320,115 (direct & indirect)	Filipino	0.0101%
Common	Nimfa Ambrosia L. Perez-Paras	0	Filipino	0.0000%
<b>All Directors and Officers as a group</b>		<b>29,561,321</b>		<b>0.9364%</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.

<sup>8</sup> Resins is not related to the Company.

<sup>9</sup> EPIQ NV is a stockholder of the Company.

<sup>10</sup> The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted.

e. Foreign ownership level as of January 31, 2015

Security	Total Outstanding Shares	Shares Owned By Foreigners	Percent of Ownership
Common Shares	1,856,899,921	1,238,686,689	
Preferred Shares	1,300,000,000	8,232,749	
Total	3,156,899,921	1,246,919,438	39.50%

**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 2014 is as follows:

Directors	No. of Meetings Attended/Held <sup>11</sup>	Percent Present
Jaime Augusto Zobel de Ayala	5/6	83%
Fernando Zobel de Ayala	4/6	67%
Delfin L. Lazaro	3/6	50%
Arthur R. Tan	6/6	100%
Jose Ignacio A. Carlos	5/6	83%
Rafael Ma. C. Romualdez	6/6	100%
Delfin C. Gonzalez, Jr.	4/6	67%
John Eric T. Francia	6/6	100%
Hiroshi Nishimura	3/6	50%
Diosdado P. Banatao <sup>12</sup>	0/1	-
Alelie T. Funcell	5/6	83%
Edgar O. Chua <sup>11</sup>	4/5	80%

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 C. Gonzalez, Jr.
Arthur R. Tan	Delfin L. Lazaro
Jose Ignacio A. Carlos	Hiroshi Nishimura
Edgar O. Chua	Rafael Ma. C. Romualdez
John Eric T. Francia	

<sup>11</sup> In 2014 during the incumbency of the director.

<sup>12</sup> Mr. Banatao was replaced by Mr. Chua on April 4, 2014.

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.

Ms. Luzviminda R. Enriquez, a shareholder of the Company, formally nominated all the 11 candidates. Ms. Enriquez 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 Fernando Zobel de Ayala, as Chairman, Alelie T. Funcell and Jose Ignacio A. Carlos, 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 and Carlos have served as directors of the Company for more than five years. Messrs. Gonzalez and Francia were elected to the Board in July 2010, Mr. Nishimura and Ms. Funcell in April 2010, and Mr. Chua in April 2014.

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

The Company has adopted the SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and compliance therewith has been made. 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 our 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 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.

**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 advances and reimbursement of expenses, and sales and purchases of goods on an arm’s length basis and at current market prices at the time of the transactions.

No other 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, 2015, Ayala Corporation, AYC Holdings, Ltd., Resins, Inc., and EPIQ NV respectively own 33.74%, 29.95%, 14.62% and 6.34% of the total outstanding common and preferred 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 2014 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

### a. Executive Compensation

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan President & Chief Executive Officer			
Gilles Bernard Senior Managing Director-COO Europe & Asia			
Linardo Z. Lopez Senior Managing Director, Global Materials & Supply Chain			
Anthony Raymond P. Rodriquez AVP, Head of Treasury and Credit			
Jerome S. Tan Global Chief Finance Officer			
CEO & Other Named Executive Officers	Actual 2013	P 67.09M	P 13.69M
	Actual 2014	P 67.14M	P 15.46M
	Projected 2015	P 74.72M	P 16.58M
All officers as a group unnamed*	Actual 2013	P 388.74M	P 75.52M
	Actual 2014	P 426.16M	P 83.84M
	Projected 2015	P 450.10M	P 89.11M

\*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	P 100,000.00
Committee Meeting Fee per meeting attended	P 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 accountants and external auditors 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 for the 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, including VAT, to its external auditors in the past two years:

	<u>Audit &amp; Audit-related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
2014	₱ 8.50M*	₱ 0.70M	₱ 0.07M
2013	₱ 3.36M	-	₱ 1.35M

\*Includes special audit as of and for the periods ended July 31, 2014 and 2013 in relation to the follow-on offering of the Company.

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

e. **Tax fees**

The Company engaged SGV & Co. to perform tax compliance review for 2014.

f. **All other fees**

In 2014, the Company engaged the services of SGV & Co. to perform the validation of votes during its 2014 annual stockholder's meeting for ₱ 0.07M.

In 2013, the Company engaged the services of SGV & Co. to perform tax advisory and transfer pricing services, agreed-upon procedure on review of impairment test of goodwill and validation of votes during the 2013 annual stockholder's meeting. Aggregate amount of other non-audit related fees amounted to ₱1.35 million.

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

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 8. 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 9. Modification or exchange of securities**

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

### **Item 10. Financial and other information**

The audited financial statements as of December 31, 2014, 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 11. 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 12. Acquisition or disposition of property**

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

## Item 13. Restatement of accounts

### Changes in Accounting Policies and Disclosures

#### *New and amended standards and interpretation*

The Group applied for the first time certain standards and interpretation, which are effective for annual periods beginning on or after January 1, 2014. Except as otherwise indicated, these standards and interpretation have no impact on the Group's financial position, financial performance and/or disclosures:

- Philippine Accounting Standards (PAS) 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*  
These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.
- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets*  
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period.
- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements* (Amendments) – *Investment Entities*  
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). The amendments must be applied retrospectively, subject to certain transition relief.
- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*  
Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for this interpretation.

#### Standards Issued but not yet Effective

The Group will adopt the following new and amended standards and interpretation when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretation to have significant impact on the consolidated financial statements.

#### *Effective in 2015*

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively)

*Annual improvements to PFRSs (2010-2012 cycle) (effective for annual periods beginning on or after January 1, 2015)*

These annual improvements include:

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
- PAS 24, *Related Party Disclosures – Key Management Personnel*
- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

*Annual improvements to PFRSs (2011-2013 cycle) (effective for annual periods beginning on or after January 1, 2015)*

These annual improvements include:

- PAS 40, *Investment Property*
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*

*Effective in 2016*

- PAS 16, *Property, Plant and Equipment and PAS 38, Intangible Assets (Amendments) – Clarification of Acceptable Methods of Depreciation and Amortization* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)
- PAS 16, *Property, Plant and Equipment and PAS 41, Agriculture (Amendments) – Bearer Plants* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)
- PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)
- PFRS 10, *Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)
- PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

*Annual Improvements to PFRSs (2012-2014 Cycle) (effective for annual periods beginning on or after January 1, 2016)*

These annual improvements include:

- PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

*Effective in 2018*

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2018 and are applied retrospectively)

*Interpretation whose effective date was deferred*

- Philippine Interpretation of IFRIC 15, *Agreement for Construction of Real Estate*

*Standard issued by the IASB but not yet been adopted by the Financial Reporting Standards Council*

- IFRIC 15, *Revenue from Contracts with Customers*

## **D. OTHER MATTERS**

### **Item 14. Action with respect to reports**

- a. Approval of the Minutes of the 2014 annual stockholders' meeting held on April 4, 2014 covering the following matters:
  - (i) Annual report of officers;
  - (ii) Ratification and approval of all acts and resolutions of the Board of Directors and the Executive Committee from the annual stockholders' meeting on April 12, 2013 until the annual stockholders' meeting on April 4, 2014;
  - (iii) Election of the members of the Board of Directors, including the Independent Directors, and
  - (iv) Election of external auditors and fixing their remuneration.
- b. Approval of the Annual Report of Management for the year ending December 31, 2014.

### **Item 15. Amendment of charter, bylaws or other documents**

At its meeting on December 2, 2014, the Board of Directors approved the amendment of the Third Article of the Articles of Incorporation of the Company to change the principal office address of the Company from Metro Manila, Philippines to North Science Park, Laguna Technopark-Special Economic Zone, Biñan, Laguna, in compliance with the Securities and Exchange Commission Memorandum Circular No. 6, Series of 2014. The stockholders will consider the amendment at their meeting.

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

THIRD. That the principal office of the Corporation shall be North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna 4024, but it may establish branch offices in any part of the Philippines or in such other places outside the Philippines as may be approved by the Board of Directors. (As amended on April 6, 2015).

### **Item 16. Other proposed actions**

- a. Ratification of all acts and resolutions of the Board and Management from the annual stockholders' meeting on April 4, 2014 until the annual stockholders' meeting on April 6, 2015 involving:
  - (i) Approval of investments;
  - (ii) Treasury matters including borrowings, opening of accounts and bank transactions;
  - (iii) Appointment of signatories and amendments thereof.
- b. Election of the members of the Board, including the independent directors, for the ensuing calendar year.

- c. Election of external auditors and fixing their remuneration.

## **Item 17. 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 Articles of Incorporation of the Company. 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 to be presented to the stockholders for decision as set forth above. The election of directors is by plurality of votes.

### **b. Method of Voting**

Straight and Cumulative.

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. 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 10<sup>th</sup> day of March 2015.

**INTEGRATED MICRO-ELECTRONICS, INC.**



**by: SOLOMON M. HERMOSURA**  
Corporate Secretary

**ANNEX “A”**  
**DIRECTORS AND KEY OFFICERS**

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2014.

**Board of Directors**

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Arthur R. Tan	Director, President & Chief Executive Officer
Fernando Zobel de Ayala	Director
Jose Ignacio A. Carlos	Director
John Eric T. Francia	Director
Delfin C. Gonzalez, Jr.	Director
Delfin L. Lazaro	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, 55, 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 Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board; Vice Chairman of the Makati Business Club, and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, National Competitiveness Council and Endeavor Philippines; and a Philippine Representative for APEC Business Advisory Council. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA at the Harvard Graduate School of Business Administration in 1987.

**Arthur R. Tan**, Filipino, 55, is a member of the Board of Directors of IMI since July 2001. He has been the President and Chief Executive Officer of Integrated Micro-Electronics, Inc., a publicly listed company, since April 2002. Concurrently, he is a Senior Managing Director of Ayala Corporation; the President and Chief Executive Officer of PSi Technologies Inc., and President of Speedy-Tech Electronics Ltd. 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.

**Fernando Zobel de Ayala**, Filipino, 54, 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., AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Director of LiveIt Investments, Ltd., Ayala International Holdings Limited, 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 and Habitat for Humanity International; 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, Kapit Bisig para sa Ilog Pasig Advisory Board, National Museum and the foundation of the Roman Catholic Church. He graduated with B.A. Liberal Arts at Harvard College in 1982.

**Jose Ignacio A. Carlos**, Filipino, 45, 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.

**John Eric T. Francia**, Filipino, 43, is a Director of IMI since July 2010. He holds the following positions in publicly listed companies: Managing Director of Ayala Corporation and Director of Manila Water Co., Inc. He is the President and CEO of AC Energy Holdings, Inc. and AC Infrastructure Holdings Corporation since 2011. He is also a member of the Board of Directors of the following companies within the Ayala Group: LiveIt Investments Ltd., LiveIt Global Services Management Institute, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, South Luzon Thermal Energy Corporation, Quadriver Energy Corporation, Automated Fare Collection Services, Inc., Light Rail Manila Corporation, and HCM City Infrastructure Investment Joint Stock Company. From January 2009 to September 2014, Mr. Francia was head of Ayala's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development. Prior to joining Ayala, Mr. Francia was involved in the fields of management consulting, academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude. He then completed his Masters Degree in Management Studies at the University of Cambridge in the UK, graduating with First Class Honors.

**Delfin C. Gonzalez, Jr.**, Filipino, 65, joined the IMI board in July 2010 and became a member of the IMI's Finance and Audit Committees. He is the Chief Finance Officer of Ayala Corporation, a publicly listed company, and is also a member of its Management Committee and Finance Committee since April 2010. He joined Ayala Corporation in late 2000, assigned as Chief Finance Officer for its subsidiary, Globe Telecom, Inc. until early 2010. He also holds the following positions in various companies of the Ayala Group: Chairman of Darong Agricultural Development Corporation, AC Infrastructure Holdings Corporation and AYC Finance Ltd.; President and Director of Ayala DBS Holdings Inc.; and Director of AC International Finance, Ltd., Asiacom Philippines, Inc., AC Energy Holdings, Inc., LiveIt Investments, Ltd., Ayala Aviation Corporation, AYC Holdings Ltd., Michigan Holdings, Inc., Azalea International Venture Partners Ltd., Philwater Holdings Company, and various Ayala international companies. Mr. Gonzalez earned a degree in BS Chemical Engineering from De La Salle College Manila in 1971 and took his Masters in Business Administration at the Harvard Business School in 1975.

**Delfin L. Lazaro**, Filipino, 68, 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.; and Independent Director of Lafarge Republic, 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 Energy Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala International Holdings, Ltd., Bestfull Holdings Limited, Probe Productions, Inc. and Empire Insurance Company; 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.

**Rafael Ma. C. Romualdez**, Filipino, 51, has been a Director of IMI since May 1997. He is presently a Director of Resins, Inc., RI Chemical Corporation and Claveria Tree Nursery, Inc. He is also the Chairman of the Philippine Iron Construction and Marine Works, Inc., Pigmentex Incorporated, 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, 58, has been an independent director of IMI since April 2014. He is the Chairman of the Shell Companies in the Philippines where he is responsible for the exploration, manufacturing and marketing sector of the petroleum business of various Shell companies. Likewise, he oversees the Chemicals businesses and Shared Services of Shell. He is currently in the advisory board of Mitsubishi Motors, Globe

Telecommunication, Inc., a listed company, and Coca-cola FEMSA Philippines. He also holds the following positions: Chairman of the Philippine Business for the Environment and Energy Council of the Philippines; President of Pilipinas Shell Foundation, Inc. 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, 59, 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 Concentrator 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, 61, 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 / Key Executive Officers**

- \* Jaime Augusto Zobel de Ayala      Chairman of the Board
- \* Arthur R. Tan      President & Chief Executive Officer
- \*\* Jerome S. Tan      Chief Financial Officer
- \*\* Linardo Z. Lopez      Senior Managing Director, Global Head of Materials and Supply Chain
- Gilles Bernard      Senior Managing Director – COO Europe and Asia
- Anthony Raymond P. Rodriguez      Assistant Vice President, Head – Treasury & Credit
- Solomon M. Hermosura      Corporate Secretary
- Nimfa Ambrosia L. Perez-Paras      Assistant Corporate Secretary
- \* *Members of the Board of Directors*
- \*\* *Management Committee members*

**Jerome S. Tan**, Singaporean, 53, is the 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, 57, joined IMI as Senior Managing Director and Global Head of Materials and Supply Chain 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.

**Gilles Bernard**, French, 57, is the Global Chief Operating Officer of IMI effective February 2014. He holds this position on top of his role as Head of Global Operations Support. 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.

**Anthony Raymond P. Rodriguez**, Filipino, 47, 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, 52, 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 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 graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.

**Nimfa Ambrosia L. Perez-Paras**, Filipino, 49, has served as the Assistant Corporate Secretary of IMI since April 2014. She is a Senior Counsel of Ayala Group Legal. She is the Assistant Corporate Secretary of listed companies namely: Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation. She handles various corporate secretarial functions for affiliates of IMI and for a number of companies within the Ayala Group. Prior to joining Ayala Group Legal in February 2014, she was a State Counsel at the Department of Justice. She also worked at the Regional Trial Courts of Makati and Quezon City. In the private sector, she worked as Legal Counsel for Coca-Cola Bottlers Philippines, Inc., RFM Corporation, and Roasters Philippines, Inc. She graduated with a Bachelors of Law degree from Manuel L. Quezon School of Law in 1990.

## 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 2013, 2012 and 2011 are shown on the following table:

	For the years ended 31 December		
	2014	2013	2012
	<i>(in US\$ thousands, except Basic EPS)</i>		
Revenues from sales and services	844,474	745,032	661,850
Cost of goods sold and services			
Gross profit	(750,541)	(677,103)	(604,914)
Net income attributable to equity holders of the Parent Company	93,933	67,929	56,936
EBITDA <sup>13</sup>	29,117	10,473	5,585
Basic Earnings per Share (EPS)	52,882	36,440	32,754

##### 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.

<sup>13</sup> EBITDA = 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.

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\$25.9 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:

	As of the Years Ended		
	31 Dec 2014	31 Dec 2013	31 Dec 2012
<b>Performance indicators</b>			
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		
	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 assets <sup>e</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/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.

<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.

- (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 31 Dec 2014 versus 31 Dec 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**

(31 Dec 2014 versus 31 Dec 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 31 December 2014 versus the year ended 31 December 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%)

## **2013 vs. 2012**

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

Amidst a subdued global economy, the Group revenues grew 12.6% to US\$745.0 million in 2013 from US\$661.8 million in 2012 due mainly to the Group's strong business expansion in Europe, Mexico and the Philippines.

The Company realized higher revenues with corresponding profitability despite several challenges. The Company's diversification strategy has afforded extensive global footprint, amplified technical capabilities, and wide-ranging customers.

IMI's China and Singapore operations contributed 37% to IMI's 2013 revenues, posting USD277 million, same level as last year's. Improvement in China's telecommunications market in the fourth quarter proved favorable to IMI's assembly operations of communication infrastructure devices.

Operations in Europe and Mexico generated USD235 million in consolidated revenues, or an increase of 28.9% year-over-year, due to the continued expansion of their automotive business.

IMI's Philippine operations recorded USD189 million in revenues, or an 20.9% year-on-year growth, mainly because of increased business in the storage device market following the consolidation of outsourced production of storage technology products from Japan.

PSi Technologies Inc., generated USD43 million revenues, down from the same period last year by 5.5% due to the shutdown of nonprofitable businesses.

The company's automotive electronics business now accounts for 37% of IMI's total revenues from 32% in 2012.

Europe remains to be the biggest market of the company's products, comprising 51% of global sales, followed by America at 30%.

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

Cost of sales is higher by 12% relative to the 13% increase in revenues. Increase is mainly attributable to direct materials from increased revenues of Europe and Mexico entities which are mostly under the turnkey business arrangement. Direct labor also increased from upsurge of labor-intensive businesses in the Philippines which are under the consignment arrangement.

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

The Company's operations generated gross profit of US\$67.9 million, higher year-on-year by 19% which is revenue driven. GP margin higher by 51 bps from better margins of Europe, Philippines and PSi, however offset by China driven by significant revenue drop and lower capacity utilization.

### **Operating Expenses**

The Company's operating expenses went up by US\$6.3 million or 13% due to higher reversal of prior year excess accruals in 2012 and higher general and administrative costs to support growth in line with continuous global expansion. The Group also recorded allowance provisions on certain assets.

### **Net Income**

The company generated US\$10.5 million net income, nearly doubled from last year's US\$5.6 million. Operating income up by US\$4.7 million or 64% driven by Europe entities. Beneficial FX positions contributed +US\$1.5M vs. last year due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other business income such as rental and gain on sale of assets/materials +US\$2.6M and amortization of deferred tax liability upon exercise of call option +US\$0.8M also contributed significantly.

### **EBITDA**

EBITDA higher by US\$3.7 million or 11% from last year's US\$32.8 million due to higher operating income +US\$4.7 million and beneficial forex position +US\$1.5M.

### **Financial Condition**

The Company maintains financial stability with a cash balance of US\$49.0 million as of December 31, 2013. Current ratio and debt-to-equity ratio remains healthy at 1:53:1 and 0.48:1, respectively.

## Capital Expenditure

In 2013, the Company's capital expenditures amounted to US\$20.8 million (inclusive of equipment under finance lease amounting to US\$3.0M) which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For 2014, the Company expects to spend \$27M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building extensions and improvements, purchase of equipment for new projects, various machineries restorations and innovation 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:

	As of the Years Ended		
	31 Dec 2013	31 Dec 2012 (As restated)	31 Dec 2011 (As restated)
<b>Performance indicators</b>			
Liquidity:			
Current ratio <sup>a</sup>	1.53x	1.56x	1.51x
Solvency:			
Debt-to-equity ratio <sup>b</sup>	0.48x	0.47x	0.43x
<b>For the years ended</b>			
<b>31 December</b>			
	<b>2013</b>	<b>2012 (As restated)</b>	<b>2011 (As restated)</b>
Operating efficiency:			
Revenue growth <sup>c</sup>	13%	15%	40%
Profitability:			
Return on equity <sup>d</sup>	5%	3%	2%
Return on assets <sup>e</sup>	2%	1%	1%
EBITDA margin <sup>15</sup>	5%	5%	3%

<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/Total Assets

<sup>15</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.

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 31 Dec 2013 versus 31 Dec 2012)

#### 13% growth in Revenues from Sales and Services (\$661.8M to \$745.0M)

Increase was mainly due to the Company's automotive business expansion in Europe and Mexico (↑US\$53.6 million) and the Philippines (↑US\$30.1 million) due to increased business in the storage device market.

#### 12% increase in Cost of Goods Sold and Services (\$604.9M to \$677.1M)

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 fixed overhead costs to cope with the business expansions.

#### 13% increase in Operating Expenses (\$49.5M to \$55.8M)

The increase can be attributable to higher reversal of PY excess accruals in 2012 by US\$2M and increased expenses (people costs, government-related costs, higher utilities). Provision for inventory obsolescence, bad debts and idle assets were also recognized for Bulgaria, China and Philippines.

#### 163% increase in net finance and other income (-\$2.5M to \$1.6M)

Foreign exchange +US\$1.5M due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other income also grew from other business income such as rental and gain on sale of assets/materials +US\$2.6M.

#### 14% increase in provision for income tax (\$4.0M to \$4.5M)

Increase in current tax from higher taxable base due to better margins. Increase in deferred tax benefit from reversal of deferred tax liability upon exercise of call option +US\$0.8M, however, offset by reversal of deferred tax assets from allowance provisions.

#### 88% increase in net income attributable to equity holders of the Parent Company (\$5.6M to \$10.5M)

Relative to increase in revenues and improved profitability.

66% decrease in net loss attributable to Noncontrolling Interest (-\$4.7M to -\$1.3 million)

Lower net loss of PSi by 54% as a result of consolidation of facilities coupled by dilution of minority share in PSi (44.22% to 16.75%).

### **Balance Sheet items**

(31 Dec 2013 versus 31 Dec 2012)

13% decrease in Cash and cash equivalents (from \$56.2M to \$49.0M)

Operating activities generated \$15.1 million cash mainly from higher operating income. Cash used for investing activities amounted to US\$16.9M mainly attributable to capital expenditures to support growth and expansion. Financing activities used US\$5.3M of cash to settle some loans, pay dividends to stockholders and pay separation benefits.

18% increase in Loans and receivables (\$150.9M to \$178.5M)

Relevant to significant growth of revenues from Europe, Mexico and Philippine operations.

13% increase in Inventories (\$83.2M \$94.1M)

Increase attributable to growth of turnkey businesses particularly in Europe and Mexico. Turnkey consignment ratio from 89:11 to 91:9.

100% decrease in Derivative assets (\$2.9M to \$-)

Exercise of call option.

124% increase in Other current assets (\$7.4M to \$16.6M)

Represents VAT claims of IMI Mexico.

18% decrease in Intangible assets (\$5.9M to \$4.9M)

Due to amortization of customer relationship recognized upon acquisition of Europe and Mexico subsidiaries (5-year amortization) –US\$1.8M, offset by additional computer software acquired during the year +US\$0.8M.

40% decrease in Deferred income tax assets (\$1.1M to \$0.6M)

Attributable to allowance for bad debts and inventory obsolescence.

43% increase in Other noncurrent assets (\$1.8M to \$2.6M)

Increase in miscellaneous deposits.

16% increase in Accounts payable and accrued expenses (\$143.4M to \$171.1M)

Increase in trade payables (↑\$19M) from IMI Europe and Philippines with reference to increased inventories and longer days payable for PSi. Increase in accrued expenses (↑\$12M) mainly from additional accruals for people-related costs, subcontracting costs, taxes, supplies, utilities and professional fees.

10% increase in Current portion of long-term debt (\$2.6M to \$2.9M)

Appreciation of Euro against USD resulted to higher USD equivalent (+US\$109K) of the €2M current portion of long-term debt to EPIQ NV. IMI CZ also incurred additional long-term debt in 2013 (current portion amounted to \$145K).

33% decrease in Deferred tax liabilities (\$4.6M to \$3.1M)

Due mainly to reversal of deferred tax liability upon exercise of the call option and amortization of deferred tax liabilities on increase in fair value of PPE and recognition of intangibles for IMI EU/MX at the time of acquisition.

14% decrease in Deferred revenue (\$2.0M to \$1.7M)

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

188% increase in Pension liabilities (\$2.3M to \$6.7M)

Increase in actuarial losses recognized in other comprehensive income as a result of increased salary rate assumption.

322% increase in Obligation under finance lease (\$0.7M to \$3.0M)

Additional finance lease contracts related to IMI Europe's machineries and production equipment.

12% decrease in Additional Paid-in Capital (\$58.6M to \$51.3M)

Arising from change in ownership in PSi from 55.78% to 83.25%. Additional investment in PSi amounting equivalent to the value of call option at the time of exercise (US\$3.0), cash consideration (US\$125K), and dilution of non-controlling interest (US\$4.5) was allocated to APIC.

38% increase in Cumulative translation adjustments (-\$2.3M to -\$1.4M)

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

94% increase in Other comprehensive loss (-\$4.6M to -\$9.0M)

Increase in actuarial losses resulting from increased salary rate assumption.

56% increase in Minority interests in a consolidated subsidiary (-\$5.9M to -\$2.6M)

Lower share of minority in the net liabilities of PSi as a result of change in ownership from 55.78% to 83.25%.

## 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 50.92% 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 assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. IMI is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services.

IMI Singapore was incorporated and is domiciled in Singapore. It is engaged in the procurement of raw materials, supplies and provision of customer services. 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.

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

IMI and EPIQ NV executed a Share Purchase Agreement on July 29, 2011 wherein EPIQ NV agreed to sell to Cooperatief IMI Europe U.A. (Cooperatief), an indirect subsidiary of the Parent Company, all of its shares in its subsidiaries, 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 printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. IMI EU/MX Subsidiaries also provide engineering, research and development, and logistics management services.

IMI USA acts as direct support to the Group’s customers by providing program management, customer service, engineering development and prototype manufacturing services to both North American and European 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 engineering, design for manufacturing technology, advanced manufacturing process development, new product introduction (NPI), direct chip attach and small precision assemblies.

IMI Japan was registered and is domiciled in Japan. IMI Japan acts as sales office and program management center for new business. There is no manufacturing operation in IMI Japan.

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 2013 and 2014.

	Philippine Stock Exchange Prices in PhP/share					
	<u>High</u>		<u>Low</u>		<u>Close</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
First Quarter	3.24	4.20	2.50	3.85	3.09	3.85
Second Quarter	6.00	3.85	3.10	2.92	5.90	2.94
Third Quarter	8.00	3.40	5.80	1.88	7.88	3.00
Fourth Quarter	8.84	3.00	6.69	2.50	6.77	2.50

The market capitalization of the Company's common shares as of December 31, 2014, based on the closing price of ₱ 6.77/share, was approximately ₱ 12.6 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 9, 2015, is ₱ 6.78 per share.

### B) *Holders*

There are approximately 449 and 42 registered holders of common and preferred shares, respectively, as of January 31, 2015. The following are the top 20 registered holders of the common and preferred stockholders of the Company:

#### *Common Shares*

	<b>Stockholder Name</b>	<b>No. of Common Shares</b>	<b>Percentage of Common Shares</b>
1.	AYC Holdings, Ltd.	945,537,373	50.9202%
2.	PCD Nominee Corporation (Filipino)	528,086,385	28.4391%
3.	EPIQ NV	200,000,000	10.7706%
4.	POMS Investment Pte Ltd.	57,339,671	3.0879%
5.	2014 ESOWN Subscriptions	31,797,958	1.7124%
6.	2007 ESOWN Subscription	30,372,413	1.6356%
7.	2009 ESOWN Subscription	18,050,534	0.9721%
8.	PCD Nominee Corporation (Non-Filipino)	15,294,251	0.8236%
9.	SIIX Corporation	6,581,622	0.3544%
10.	Chow Phui Kheong	3,164,906	0.1704%
11.	2004 ESOWN Subscription	3,090,040	0.1664%
12.	Kwok Kai Ming	1,698,768	0.0914%
13.	Josef Pfister	1,415,860	0.0762%
14.	Rafael Nestor Velez Mantaring	1,057,930	0.0570%
15.	Timothy Patterson	955,696	0.0515%
16.	Richard D. Bell	910,572	0.0490%
17.	Helmut Baumgart	865,448	0.0466%
18.	Lucrecio B. Mendoza	540,245	0.0291%
19.	Kot Yiu Kuen	490,244	0.0264%
20.	Shong Cheng Yeh	466,367	0.0251%

***Preferred Shares***

	<b>Stockholder Name</b>	<b>No. of Preferred Shares</b>	<b>Percentage of Preferred Shares</b>
1.	Ayala Corporation	1,064,899,372	81.9153%
2.	Resins, Inc.	222,222,107	17.0940%
3.	SIIX Corp.	6,047,392	0.4652%
4.	Helmut Baumgart	1,062,122	0.0817%
5.	Andrew C. Carreon	1,043,400	0.0803%
6.	Meneleo J. Carlos, Jr.	855,000	0.0658%
7.	Neilson C. Esguerra	500,000	0.0385%
8.	Ceferino L. Follosco	426,720	0.0328%
8.	Francisco I. Ferrer	426,720	0.0328%
9.	Josef Pfister	362,824	0.0279%
10.	Transtechology Pte Ltd	280,092	0.0215%
11.	Claudio Truzzi	208,680	0.0160%
12.	Mary Ann S. Natividad	200,000	0.0154%
13.	Rosalyn O. Tesoro	177,492	0.0136%
14.	Sherly D. del Carmen	121,920	0.0094%
15.	Peter Lausen	104,340	0.0080%
16.	Ceferina S. Santos	100,000	0.0077%
16.	Reynaldo N. Torda	100,000	0.0077%
17.	Fe R. Gonzales	80,000	0.0061%
18.	Maribeth D. Gamao	73,080	0.0056%
19.	Khalid S/O Faiz Mohamed	56,018	0.0043%
20.	Noelito A. Gamao	51,920	0.0040%

***C) Dividends***

***Stock Dividend-Common Shares***

<b>PAYMENT DATE</b>	<b>PERCENT</b>	<b>RECORD DATE</b>
Sept. 24, 2010	15%	Aug. 31, 2010

***Cash Dividends-Common Shares***

<b>PAYMENT DATE</b>	<b>RATE</b>	<b>RECORD DATE</b>
March 19, 2014	USD 0.00140/ ₱0.06319	March 3, 2014
March 19, 2015	USD 0.0042/ ₱0.1868	March 4, 2015

***Cash Dividends-Preferred Shares***

<b>PAYMENT DATE</b>	<b>RATE</b>	<b>RECORD DATE</b>
February 21, 2013	8.25% p.a.	February 8, 2013
May 21, 2013	8.25% p.a.	May 8, 2013
August 23, 2013	8.25% p.a.	August 9, 2013
November 22, 2013	8.25% p.a.	November 11, 2013
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
November 25, 2015	2.90% p.a.	November 11, 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>
2014	31,797,958
2013	NIL

*\*Net of cancelled subscriptions.*

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.

The quarter report for the period ending March 31, 2015 will be made available to stockholders by May 15, 2015 or upon approval of the Company's Audit Committee of the said report.

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  
Biñan, Laguna

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



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Integrated Microelectronics, Inc. North Science Avenue Special Export Processing Zone, Laguna Technopark Biñan Laguna 4024 Philippines

Tel (63 49) 541-1015 to 20 Fax (63 49) 541 0013 www.global-imi.com

The management of Integrated Micro-Electronics, Inc. (Parent Company) and its subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards.

The Board of Directors of the Parent Company reviews and approves the consolidated financial statements and submits the same to the stockholders of the Parent Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2014 and 2013, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders of the Parent Company, has expressed its opinion on the fairness of presentation upon completion of such examination.

Handwritten signature of Jaime Augusto Zobel de Ayala

JAIME AUGUSTO ZOBEL DE AYALA Chairman, Board of Directors

Handwritten signature of Arthur R. Tan

ARTHUR R. TAN President & Chief Executive Officer

Handwritten signature of Jerome S. Tan

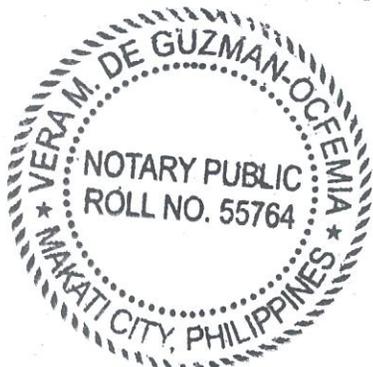
JEROME S. TAN Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 17 2015 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

Table with 3 columns: Name, Passport No., Date & Place of Issue. Rows include Jaime Augusto Zobel de Ayala, Arthur R. Tan, and Jerome S. Tan.

Doc. No. 4 ; Page No. 16 ; Book No. 15 ; Series of 2015.

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



VERA M. DE GUZMAN-OCFEMIA Notary Public - Makati City Appt. No. M285 until December 31, 2016 Attorney's Roll No. 55764 PTR No. 4748072MC; 01-05-2015; Makati City IBP Lifetime Roll No. 0012406 MCLE Compliance No. V-0004769; 12/03/2014 3rd Floor, Tower One & Exchange Plaza Ayala Triangle, Ayala Avenue Makati City, Philippines

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

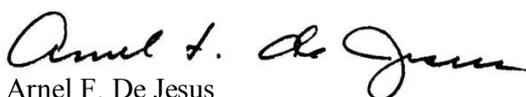
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-3 (Group A),  
February 14, 2013, valid until February 13, 2016

Tax Identification No. 152-884-385

BIR Accreditation No. 08-001998-15-2012,  
June 19, 2012, valid until June 18, 2015

PTR No. 4751272, January 5, 2015, Makati City

February 17, 2015



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

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	\$117,625,491	\$49,042,599
Receivables - net (Note 6)	195,122,068	178,464,742
Inventories (Note 7)	91,389,469	94,135,608
Other current assets (Note 8)	11,871,721	16,619,969
Total Current Assets	416,008,749	338,262,918
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 9)	81,687,930	85,654,052
Goodwill (Note 10)	46,876,213	54,355,193
Intangible assets (Note 11)	4,002,745	4,861,730
Available-for-sale financial assets (Note 12)	522,361	1,867,094
Deferred tax assets (Note 23)	1,731,656	644,543
Other noncurrent assets (Note 13)	1,877,753	2,583,286
Total Noncurrent Assets	136,698,658	149,965,898
	\$552,707,407	\$488,228,816
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 14)	\$182,087,233	\$171,054,574
Trust receipts and loans payable (Note 15)	52,094,452	45,653,865
Current portion of long-term debt (Note 16)	2,800,640	2,903,408
Income tax payable	3,651,669	1,649,533
Derivative liabilities (Note 31)	-	40,606
Total Current Liabilities	240,633,994	221,301,986
<b>Noncurrent Liabilities</b>		
Noncurrent portion of:		
Long-term debt (Note 16)	57,298,750	61,699,753
Obligation under finance lease (Note 28)	2,257,583	2,977,968
Deferred revenue (Note 17)	1,442,853	1,742,329
Net retirement liabilities (Note 25)	4,711,551	6,742,808
Deferred tax liabilities (Note 23)	1,434,399	3,091,890
Accrued rent	480,695	443,027
Other noncurrent liabilities	181,917	183,555
Total Noncurrent Liabilities	67,807,748	76,881,330
Total Liabilities	308,441,742	298,183,316

(Forward)



	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>EQUITY (Note 18)</b>		
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock-common	<b>\$34,876,616</b>	\$30,016,551
Capital stock-preferred	<b>26,601,155</b>	26,601,155
Subscribed capital stock	<b>1,797,638</b>	1,229,926
Additional paid-in capital	<b>80,480,981</b>	51,263,933
Subscriptions receivable	<b>(12,906,784)</b>	(9,590,746)
Retained earnings:		
Appropriated for expansion	<b>20,660,981</b>	20,660,981
Unappropriated	<b>109,481,277</b>	83,503,457
Treasury stock	<b>(1,012,586)</b>	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	<b>184,119</b>	189,601
Cumulative translation adjustment	<b>(10,709,346)</b>	(1,425,142)
Other comprehensive loss	<b>(5,573,564)</b>	(8,958,073)
Other reserves	<b>170,714</b>	170,714
	<b>244,051,201</b>	192,649,772
<b>Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries</b>		
	<b>214,464</b>	(2,604,272)
<b>Total Equity</b>	<b>244,265,665</b>	190,045,500
	<b>\$552,707,407</b>	\$488,228,816

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2014	2013	2012
<b>REVENUES</b>			
Sale of goods	\$746,158,727	\$670,772,413	\$590,363,704
Sale of services	98,315,342	74,259,450	71,486,018
	<b>844,474,069</b>	<b>745,031,863</b>	<b>661,849,722</b>
<b>COST OF SALES</b> (Note 19)			
Cost of goods sold	664,495,465	607,557,635	541,811,352
Cost of services	86,045,599	69,545,328	63,102,067
	<b>750,541,064</b>	<b>677,102,963</b>	<b>604,913,419</b>
<b>GROSS PROFIT</b>	<b>93,933,005</b>	67,928,900	56,936,303
<b>OPERATING EXPENSES</b> (Note 20)	<b>(64,232,479)</b>	(55,794,676)	(49,523,632)
<b>OTHERS</b> - Net			
Gain on sale and retirement of property, plant and equipment - net (Note 9)	14,506,946	125,172	132,752
Impairment loss on goodwill (Note 10)	(7,478,980)	-	-
Interest expense and bank charges (Note 22)	(2,814,803)	(2,879,941)	(3,021,473)
Rental income (Note 28)	1,262,717	1,077,971	565,434
Gains on insurance claims (Note 7)	334,695	-	-
Interest income (Note 5)	196,271	218,577	267,092
Foreign exchange gains (losses) - net	36,401	1,430,757	(106,197)
Miscellaneous income (loss) - net	(552,482)	1,616,559	(358,543)
	<b>5,490,765</b>	<b>1,589,095</b>	<b>(2,520,935)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>35,191,291</b>	13,723,319	4,891,736
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 23)			
Current	8,927,759	5,408,640	4,687,578
Deferred	(2,727,851)	(881,359)	(728,268)
	<b>6,199,908</b>	<b>4,527,281</b>	<b>3,959,310</b>
<b>NET INCOME</b>	<b>\$28,991,383</b>	<b>\$9,196,038</b>	<b>\$932,426</b>
<b>Net Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	\$29,117,024	\$10,472,995	\$5,584,613
Non-controlling interests	(125,641)	(1,276,957)	(4,652,187)
	<b>\$28,991,383</b>	<b>\$9,196,038</b>	<b>\$932,426</b>
<b>Earnings Per Share</b> (Note 24)			
Basic and diluted	<b>\$0.017</b>	\$0.006	\$0.002

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2014	2013	2012
<b>NET INCOME FOR THE YEAR</b>	<b>\$28,991,383</b>	\$9,196,038	\$932,426
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	(9,284,204)	878,397	3,739,280
Fair value changes on available-for-sale financial assets	(5,482)	(8,293)	53,827
	<b>(9,289,686)</b>	870,104	3,793,107
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 25)	3,384,509	(4,339,837)	1,593,523
	<b>(5,905,177)</b>	(3,469,733)	5,386,630
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$23,086,206</b>	\$5,726,305	\$6,319,056
<b>Total Comprehensive Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	\$23,211,847	\$7,003,262	\$10,971,243
Non-controlling interests	(125,641)	(1,276,957)	(4,652,187)
	<b>\$23,086,206</b>	\$5,726,305	\$6,319,056

*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, 2014, 2013 and 2012**

	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	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 (Note 18)	4,860,065	-	(70,580)	31,131,655	-	-	-	-	-	-	-	-	-	35,921,140
Subscriptions during the year (Notes 18 and 26)	-	-	708,590	3,479,175	(4,187,765)	-	-	-	-	-	-	-	-	-
Transaction costs on shares issuance (Note 18)	-	-	-	(1,502,981)	-	-	-	-	-	-	-	-	-	(1,502,981)
Cost of share-based payments (Note 26)	-	-	-	165,006	-	-	-	-	-	-	-	-	-	165,006
Accretion of subscriptions receivable (Note 18)	-	-	-	79,418	(79,418)	-	-	-	-	-	-	-	-	-
Collections on subscriptions (Note 18)	-	-	-	-	328,621	-	-	-	-	-	-	-	-	328,621
Forfeitures during the year (Note 18)	-	-	(70,298)	(552,226)	622,524	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests (Note 2)	-	-	-	(3,582,999)	-	-	-	-	-	-	-	-	2,944,377	(638,622)
Cash dividends (Note 18)	-	-	-	-	-	-	(3,139,204)	-	-	-	-	-	-	(3,139,204)
Acquisition of treasury stock	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)
	<b>34,876,616</b>	<b>26,601,155</b>	<b>1,797,638</b>	<b>80,480,981</b>	<b>(12,906,784)</b>	<b>20,660,981</b>	<b>80,364,253</b>	<b>(1,012,586)</b>	<b>189,601</b>	<b>(1,425,142)</b>	<b>(8,958,073)</b>	<b>170,714</b>	<b>340,105</b>	<b>221,179,459</b>
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
<b>Balances at December 31, 2014</b>	<b>\$34,876,616</b>	<b>\$26,601,155</b>	<b>\$1,797,638</b>	<b>\$80,480,981</b>	<b>(\$12,906,784)</b>	<b>\$20,660,981</b>	<b>\$109,481,277</b>	<b>(\$1,012,586)</b>	<b>\$184,119</b>	<b>(\$10,709,346)</b>	<b>(\$5,573,564)</b>	<b>\$170,714</b>	<b>\$214,464</b>	<b>\$244,265,665</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	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, 2013	\$30,011,256	\$26,601,155	\$1,300,851	\$58,558,091	(\$9,650,842)	\$20,660,981	\$73,901,551	(\$1,012,585)	\$197,894	(\$2,303,539)	(\$4,618,236)	\$170,714	(\$5,867,862)	\$187,949,429
Acquisition of non-controlling interests (Note 2)	-	-	-	(7,522,432)	-	-	-	-	-	-	-	-	4,540,547	(2,981,885)
Issued shares during the year (Note 18)	5,295	-	(5,295)	-	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments (Note 26)	-	-	-	14,852	-	-	-	-	-	-	-	-	-	14,852
Accretion of subscriptions receivable (Note 18)	-	-	-	795,542	(795,542)	-	-	-	-	-	-	-	-	-
Collections on subscriptions (Note 18)	-	-	-	-	207,888	-	-	-	-	-	-	-	-	207,888
Forfeitures during the year (Note 18)	-	-	(65,630)	(582,120)	647,750	-	-	-	-	-	-	-	-	-
Cash dividends (Note 18)	-	-	-	-	-	-	(871,089)	-	-	-	-	-	-	(871,089)
	30,016,551	26,601,155	1,229,926	51,263,933	(9,590,746)	20,660,981	73,030,462	(1,012,585)	197,894	(2,303,539)	(4,618,236)	170,714	(1,327,315)	184,319,195
Net income (loss)	-	-	-	-	-	-	10,472,995	-	-	-	-	-	(1,276,957)	9,196,038
Other comprehensive income (loss)	-	-	-	-	-	-	-	(8,293)	878,397	(4,339,837)	-	-	-	(3,469,733)
Total comprehensive income (loss)	-	-	-	-	-	-	10,472,995	-	(8,293)	878,397	(4,339,837)	-	(1,276,957)	5,726,305
<b>Balances at December 31, 2013</b>	<b>\$30,016,551</b>	<b>\$26,601,155</b>	<b>\$1,229,926</b>	<b>\$51,263,933</b>	<b>(\$9,590,746)</b>	<b>\$20,660,981</b>	<b>\$83,503,457</b>	<b>(\$1,012,585)</b>	<b>\$189,601</b>	<b>(\$1,425,142)</b>	<b>(\$8,958,073)</b>	<b>\$170,714</b>	<b>(\$2,604,272)</b>	<b>\$190,045,500</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	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, 2012	\$24,932,075	\$26,601,155	\$6,506,970	\$59,085,110	(\$10,395,200)	\$30,660,981	\$60,982,435	(\$1,012,585)	\$144,067	(\$6,042,819)	(\$6,211,759)	\$170,714	(\$1,200,211)	\$184,220,933
Issued shares during the year (Note 18)	5,079,181	-	(5,079,181)	-	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments (Note 26)	-	-	-	70,490	-	-	-	-	-	-	-	-	-	70,490
Accretion of subscriptions receivable (Note 18)	-	-	-	676,304	(676,304)	-	-	-	-	-	-	-	-	-
Collections on subscriptions (Note 18)	-	-	-	-	19,911	-	-	-	-	-	-	-	-	19,911
Forfeitures during the year (Note 18)	-	-	(126,938)	(1,273,813)	1,400,751	-	-	-	-	-	-	-	-	-
Reversal of appropriation (Note 18)	-	-	-	-	-	(10,000,000)	10,000,000	-	-	-	-	-	-	-
Cash dividends (Note 18)	-	-	-	-	-	-	(2,665,497)	-	-	-	-	-	(15,464)	(2,680,961)
	30,011,256	26,601,155	1,300,851	58,558,091	(9,650,842)	20,660,981	68,316,938	(1,012,585)	144,067	(6,042,819)	(6,211,759)	170,714	(1,215,675)	181,630,373
Net income (loss)	-	-	-	-	-	-	5,584,613	-	-	-	-	-	(4,652,187)	932,426
Other comprehensive income	-	-	-	-	-	-	-	53,827	3,739,280	1,593,523	-	-	-	5,386,630
Total comprehensive income (loss)	-	-	-	-	-	-	5,584,613	-	53,827	3,739,280	1,593,523	-	(4,652,187)	6,319,056
<b>Balances at December 31, 2012</b>	<b>\$30,011,256</b>	<b>\$26,601,155</b>	<b>\$1,300,851</b>	<b>\$58,558,091</b>	<b>(\$9,650,842)</b>	<b>\$20,660,981</b>	<b>\$73,901,551</b>	<b>(\$1,012,585)</b>	<b>\$197,894</b>	<b>(\$2,303,539)</b>	<b>(\$4,618,236)</b>	<b>\$170,714</b>	<b>(\$5,867,862)</b>	<b>\$187,949,429</b>

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>\$35,191,291</b>	\$13,723,319	\$4,891,736
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	<b>20,859,849</b>	21,070,099	23,319,434
Gain on sale and retirement of property, plant and equipment (Note 9)	<b>(14,506,946)</b>	(125,172)	(132,752)
Impairment loss on goodwill (Note 10)	<b>7,478,980</b>	-	-
Provision for (reversal of):			
Allowance for inventory obsolescence (Notes 7 and 21)	<b>3,737,353</b>	2,123,145	282,948
Impairment on available-for-sale financial assets (Note 12)	<b>1,753,589</b>	-	-
Doubtful accounts (Notes 6 and 21)	<b>(899,304)</b>	(103,124)	441,498
Allowance for decline in value of inventories (Notes 7 and 21)	<b>84,267</b>	(107,131)	-
Impairment on property, plant and equipment (Note 9)	-	4,991	225,521
Restructuring	-	-	1,896,238
Interest expense (Note 22)	<b>2,739,455</b>	2,743,244	2,939,852
Amortization of:			
Intangible assets (Note 11)	<b>2,120,434</b>	1,789,772	2,057,626
Deferred revenue	<b>(299,476)</b>	(288,689)	(260,829)
Net retirement expense (Note 25)	<b>2,061,727</b>	1,682,245	2,199,943
Write-off of:			
Available-for-sale financial assets (Note 12)	<b>1,350,368</b>	-	-
Receivables	<b>83,562</b>	-	-
Unrealized foreign exchange losses (gains) - net	<b>385,512</b>	(878,010)	1,315,751
Interest income (Note 5)	<b>(196,271)</b>	(218,577)	(267,092)
Cost of share-based payments (Note 26)	<b>165,006</b>	14,852	70,490
Loss (gain) on derivative transactions (Note 31)	<b>35,096</b>	479,062	(1,661,641)
Operating income before working capital changes	<b>62,144,492</b>	41,910,026	37,318,723
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	<b>(21,189,248)</b>	(26,275,532)	(16,858,982)
Inventories	<b>(3,036,540)</b>	(12,648,183)	(2,591,634)
Other current assets	<b>4,748,248</b>	(9,194,057)	1,428,690
Noncurrent receivables	-	-	213,577
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>7,529,186</b>	30,429,189	(3,044,616)
Other noncurrent liabilities	<b>(1,638)</b>	96,946	(144,095)
Accrued rent	<b>37,668</b>	(142,381)	(328,280)
Net cash generated from operations	<b>50,232,168</b>	24,176,008	15,993,383
Income tax paid	<b>(6,925,623)</b>	(5,670,217)	(4,463,203)
Interest paid	<b>(2,761,850)</b>	(3,376,928)	(2,510,331)
Interest received	<b>288,192</b>	522,183	238,560
Net cash provided by operating activities	<b>40,832,887</b>	15,651,046	9,258,409

(Forward)



	<b>Years Ended December 31</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	<b>(\$24,213,138)</b>	(\$17,819,927)	(\$16,026,776)
Intangible assets (Note 11)	<b>(1,287,611)</b>	(776,158)	(525,070)
Available-for-sale financial assets (Note 12)	-	(350,369)	(1,000,000)
Proceeds from sale and retirement of property, plant and equipment (Note 9)	<b>19,193,171</b>	2,868,782	3,710,103
Decrease (increase) in other noncurrent assets	<b>705,533</b>	(841,810)	(288,683)
Net cash used in investing activities	<b>(5,602,045)</b>	(16,919,482)	(14,130,426)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from shares issuance (Notes 5 and 18)	<b>35,921,140</b>	-	-
Availments of loans	<b>24,299,485</b>	6,134,943	43,697,044
Payments of:			
Loans payable	<b>(16,301,258)</b>	(4,468,943)	(32,780,287)
Long-term debt	<b>(2,903,578)</b>	(2,656,400)	-
Decrease in obligations under finance lease	<b>(1,452,792)</b>	(523,260)	(800,671)
Dividends paid to equity holders of the Parent Company (Notes 14 and 18)	<b>(3,099,043)</b>	(2,661,415)	(2,468,881)
Transaction costs on shares issuance (Note 18)	<b>(1,502,981)</b>	-	-
Separation/benefits paid (Note 25)	<b>(662,992)</b>	(1,286,407)	(1,870,152)
Cash paid on acquisition of non-controlling interests (Note 2)	<b>(638,622)</b>	(124,875)	-
Collections of subscriptions receivable (Note 18)	<b>328,621</b>	207,888	19,911
Settlement of derivatives (Note 31)	<b>(75,702)</b>	(438,456)	1,568,981
Acquisition of treasury shares	<b>(1)</b>	-	-
Dividends paid to non-controlling interests	-	-	(15,464)
Net cash provided by (used in) financing activities	<b>33,912,277</b>	(5,816,925)	7,350,481
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<b>(560,227)</b>	(68,422)	(351,262)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>68,582,892</b>	(7,153,783)	2,127,202
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>49,042,599</b>	56,196,382	54,069,180
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>	<b>\$117,625,491</b>	\$49,042,599	\$56,196,382

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 50.92% 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 49.03% 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 assembly (PCBA), flip chip assembly, box build sub-assembly, and enclosure system, and provider of electronics product design, research and development, product development outsourcing, and other electronic parts, among others. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services.

IMI Singapore was incorporated and is domiciled in Singapore. It is engaged in the procurement of raw materials, supplies and provision of customer services. 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 manufacturing (OEM) customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.

On April 16, 2009, IMI Singapore established its Philippine Regional Operating Headquarters ("IMI International ROHQ" or "IMI ROHQ"). It serves as a supervisory, communications and coordinating center for the affiliates and subsidiaries of IMI Singapore.

On December 14, 2012, the Directors of STEL approved the assignment of assets and liabilities of its subsidiary, Speedy-Tech (Philippines), Inc. (STPH), to the Parent Company. On June 13, 2013, the Board of Directors (BOD) of the Parent Company authorized the transfer of all rights, title and ownership over all of the assets, and assumption of liabilities and obligations of STPH as of December 31, 2012. The Deed of Assignment was executed on July 30, 2013.

On July 29, 2011, the Parent Company and EPIQ NV executed a Share Purchase Agreement (SPA) wherein EPIQ NV agreed to sell to Cooperatief IMI Europe U.A. (Cooperatief), an indirect subsidiary of the Parent Company, all of its shares in its subsidiaries, 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 exchange for €43.45 million (\$59.77 million) consisting of the Parent Company's 200 million common shares with a value of €24.37 million (\$28.81 million), and €19.08 million (\$27.32 million) to be paid by the Parent Company in cash, out of which €4.83 million (\$6.92 million) will be paid upfront and the balance to be paid on a deferred basis.

The aggregate purchase consideration of €43.45 million is broken down into: (1) payment of approximately €11.73 million (\$16.80 million) to EPIQ NV in consideration of assumption of the receivables of EPIQ NV from the IMI EU/MX Subsidiaries that was transferred to Cooperatief; and (2) payment of approximately €31.72 million (\$39.32 million) to EPIQ NV for the purchase of equity share in the IMI EU/MX Subsidiaries.

IMI EU/MX Subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. IMI EU/MX Subsidiaries also provide engineering, research and development, and logistics management services.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to both North American and European 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 engineering, design for manufacturing technology, advanced manufacturing process development, new product introduction (NPI), direct chip attach 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.

PSi owns 40% of PSiTech Realty, Inc. (PSiTech Realty), the holding company of Pacsem Realty, Inc. (Pacsem Realty), which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired.

On June 21, 2012, the Philippine Securities and Exchange Commission (SEC) approved the legal merger of PSi Technologies Laguna, Inc. and PSi, with the former as the absorbed entity and PSi as the surviving entity. On the same date, the respective BOD of PSi, Pacsem Realty and PSiTech Realty authorized the dissolution and liquidation of Pacsem Realty and PSiTech Realty by shortening their corporate life up to December 31, 2013, subject to the approval of the Philippine SEC. As of February 17, 2015, Pacsem Realty and PSiTech Realty are in the process of completing the Philippine SEC requirements for dissolution.



The consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were authorized for issue by the Parent Company's BOD on February 17, 2015.

## 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
	2014	2013	2012		
IMI Singapore	100.00%	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	100.00%	100.00%	100.00%	Philippines	USD
STEL	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)	99.48%	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
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	100.00%	100.00%	100.00%	Hong Kong	USD
Cooperatief <sup>d</sup>	100.00%	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG	100.00%	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)
Microenergia EOOD (Microenergia) <sup>e</sup>	100.00%	70.00%	70.00%	Bulgaria	BGN
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
IMI USA	100.00%	100.00%	100.00%	USA	USD
IMI Japan	100.00%	100.00%	100.00%	Japan	USD
PSi	100.00%	83.25%	55.78%	Philippines	USD
PSiTech Realty <sup>g</sup>	40.00%	33.30%	22.31%	Philippines	USD
Pacsem Realty <sup>g</sup>	64.00%	53.28%	35.70%	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's BOD passed a resolution to wind up STCQ.

<sup>c</sup> STPH's business operations were integrated as part of the Parent Company in 2013 (see Note 1). STPH is a dormant company.

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

<sup>e</sup> In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia.

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

<sup>g</sup> The percentage pertains to the indirect ownership of the Parent Company. On June 21, 2012, the respective BOD of PSi, PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval.

### Acquisition of Non-controlling Interests

#### Acquisition of additional interest in PSi

The Investors' Agreement (IA) entered into by the Parent Company and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") with PSi Technologies Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC (collectively referred to as the "Old Investors") on June 25, 2010, was amended on September 26, 2012 to allow the parties to respectively exercise their option rights without the need for third party valuation. Accordingly, a fixed price was established amounting to \$150,000.



On January 9, 2013, pursuant to the second amendment to the Agreement, the exercise notice, which is one of the conditions for the completion of the sale and purchase of the Option Shares, was received by the parties. The sale and purchase transaction involving the Option Shares shall be deemed completed upon compliance of the rest of conditions set forth in the Agreement.

On March 12, 2013, the Deeds of Assignment have been executed and the stock certificates have been delivered. The exercise of the option rights increased the Parent Company's ownership interest in PSi from 55.78% to 83.25%.

Effective December 29, 2014, the Parent Company acquired the remaining 16.75% interest in PSi from the minority shareholders, Narra VC and Narra Associates II Limited, for a total consideration of \$500,000. The purchase of the remaining minority shares resulted to full control of IMI in PSi.

Details of the transactions are as follows:

	2014	2013
Change in ownership interest	83.25% to 100%	55.78% to 83.25%
Non-controlling interests acquired	(\$3,144,660)	(\$4,540,547)
Consideration paid to non-controlling shareholders	\$500,000	\$124,875 <sup>a</sup>
Value of the option exercised	-	2,857,010
Total consideration	500,000	2,981,885
Total amount recognized against "Additional paid-in capital" account within equity	(\$3,644,660)	(\$7,522,432)

<sup>a</sup> Share of the Parent Company in the exercise price.

#### 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 follow:

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

#### Material Partly-owned Subsidiary

PSi is the only subsidiary with non-controlling interests that is material to the Group. Financial information of PSi are provided below:

#### Proportion of equity interest held by non-controlling interests:

	2014*	2013	2012
Proportion of equity interest held by non-controlling interests	-	16.75%	44.22%
Accumulated balances of material non-controlling interests	\$-	(\$2,921,102)	(\$5,550,643)
Loss allocated to material non-controlling interests	(\$223,558)	(\$1,297,486)	(\$4,666,461)

\* On December 29, 2014, IMI acquired the remaining 16.75% interest in PSi from the minority shareholders.



The summarized financial information of PSi are provided below. These information are based on amounts before intercompany eliminations:

*Summarized balance sheets as of December 31, 2014 and 2013:*

	2014	2013
Current assets	<b>\$13,472,592</b>	\$13,549,353
Noncurrent assets	<b>5,906,025</b>	6,324,708
Current liabilities	<b>(35,486,721)</b>	(34,333,848)
Noncurrent liabilities	<b>(3,245,929)</b>	(3,496,747)
<b>Total capital deficiency</b>	<b>(\$19,354,033)</b>	(\$17,956,534)
Attributable to:		
Equity holders of the Parent Company	<b>(\$19,354,033)</b>	(\$15,035,432)
Non-controlling interests	-	(2,921,102)
	<b>(\$19,354,033)</b>	(\$17,956,534)

*Summarized statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012:*

	2014	2013	2012
Revenues	<b>\$44,932,489</b>	\$43,084,648	\$45,598,208
Cost of sales	<b>(43,029,890)</b>	(44,467,193)	(49,044,230)
Operating expenses	<b>(2,609,242)</b>	(3,625,734)	(5,860,537)
Other income (expenses)	<b>(506,887)</b>	174,751	(740,764)
<b>Loss before income tax</b>	<b>(1,213,530)</b>	(4,833,528)	(10,047,323)
Provision for income tax	<b>(121,146)</b>	(51,629)	(42,271)
<b>Net loss for the year</b>	<b>(1,334,676)</b>	(4,885,157)	(10,089,594)
<b>Other comprehensive income (loss)</b>	<b>(62,824)</b>	73,229	244,052
<b>Total comprehensive loss</b>	<b>(\$1,397,500)</b>	(\$4,811,928)	(\$9,845,542)
Attributable to:			
Equity holders of the Parent Company	<b>(\$1,173,942)</b>	(\$3,514,442)	(\$5,179,081)
Non-controlling interests	<b>(223,558)</b>	(1,297,486)	(4,666,461)
	<b>(\$1,397,500)</b>	(\$4,811,928)	(\$9,845,542)

*Summarized statements of cash flows for the years ended December 31, 2014 and 2013:*

	2014	2013	2012
Net cash provided by (used in) operating activities	<b>\$2,044,784</b>	(\$3,795,318)	(\$6,886,515)
Net cash used in investing activities	<b>(1,747,891)</b>	(1,530,827)	(1,368,538)
Net cash provided by financing activities	<b>1,472,026</b>	4,255,025	6,163,471
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$1,768,919</b>	(\$1,071,120)	(\$2,091,582)



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### 3. Summary of Significant Accounting and Financial Reporting Policies

#### Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in USD, which is the functional currency of the Parent Company, and are rounded off to the nearest USD, except when otherwise indicated.

#### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014.

Control is achieved when the Parent Company 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 Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, 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 Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets and liabilities.

#### Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to the Parent Company.

#### Changes in Accounting Policies and Disclosures

##### *New and amended standards and interpretation*

The Group applied for the first time certain standards and interpretation, which are effective for annual periods beginning on or after January 1, 2014. Except when otherwise indicated, these standards and interpretation have no impact on the Group's financial position, financial performance and/or disclosures:

- Philippine Accounting Standards (PAS) 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets*

These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements (Amendments) – Investment Entities*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). The amendments must be applied retrospectively, subject to certain transition relief.



- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*

Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Retrospective application is required for this interpretation.

#### Standards Issued but not yet Effective

The Group will adopt the following new and amended standards and interpretation when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretation to have significant impact on the consolidated financial statements.

#### *Effective in 2015*

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

- Annual Improvements to PFRSs (2010-2012 Cycle) (effective for annual periods beginning on or after January 1, 2015)

These annual improvements include:

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures – Key Management Personnel*

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.



- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- Annual Improvements to PFRSs (2011-2013 Cycle) (effective for annual periods beginning on or after January 1, 2015)

These annual improvements include:

- PAS 40, *Investment Property*

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.



*Effective in 2016*

- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets (Amendments) – Clarification of Acceptable Methods of Depreciation and Amortization* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

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.

- PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture (Amendments) – Bearer Plants* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

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.

- PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

- PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must 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.

- Annual Improvements to PFRSs (2012-2014 Cycle) (effective for annual periods beginning on or after January 1, 2016)

These annual improvements include:

- PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*

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.

- PFRS 5, *Noncurrent 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.

- 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 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.

#### *Effective in 2018*

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2018 and are applied retrospectively)

In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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.

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.



*Interpretation whose effective date was deferred*

- Philippine Interpretation of IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

*Standard issued by the IASB but not yet been adopted by the FRSC*

- IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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, 2014 and 2013 consist of loans and receivables, AFS financial assets, financial liability at FVPL 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.

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

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.

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.

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

#### *Loans and receivables*

Loans and receivables are nonderivative 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.

#### *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, common and preferred equity shares, and convertible notes.

#### *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, statutory payables and taxes payable), trust receipts and loans payable and long-term debt.

#### Fair Value Measurement

The Group measures derivatives and AFS financial assets 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 the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### 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 first 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.

Tax Credits

Tax credits, included under "Other current assets" account in the consolidated balance sheets, include amounts withheld from income tax payments and value added tax refund claims.

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 plant and 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 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.



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.

After initial recognition, intangible assets are carried at cost, less accumulated amortization and any accumulated impairment losses.

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 are as follows:

	Years
Customer relationships	5
Unpatented technology	5
Computer software	3

Intangible assets with indefinite useful lives 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.

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.

##### *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 dividend 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 expense*

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

### 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, BGN, CZK and MXP. 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 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, IMI CZ and IMI MX 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 scheme in Singapore. Contributions to defined contribution retirement schemes 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. 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.

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. The contributions of the subsidiary and the employees are subject to a cap of HK\$1,500 per month and thereafter, contributions are voluntary.

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 estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

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.

*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.

PSi

PSi compensates employees for vacation and sick absences (compensated absences). Entitlement to compensated absences is accumulating.

Leave days entitlement for a certain year can be availed of during and/or the following year, except those unused vacation leaves for prior years through December 31, 2009. Upon separation of an employee who has rendered at least one year of service, accumulated sick leave and vacation leave balances will be converted to cash based on the employee's final daily rate, except for executives' (directors and higher positions), sick leave and vacation credits which are non-commutable to cash.

Unused vacation leaves for prior years through December 31, 2009 can only be converted to cash upon separation of the employees from PSi and are actuarially determined using the projected unit credit method.



#### 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 exercisable 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, USA and 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 lease commitments - Group as lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis of rental income. Rental income is recognized in the consolidated statements of income on a straight-line basis over the lease term.

#### *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:

##### *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 March 1, 2014, IMI MX changed its functional currency from MXN 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 lessor*

In agreement with the original lessor, STEL subleased portions of the leasehold building it occupies. STEL has determined that it has not retained the significant risks and rewards related to the ownership of the said leasehold building, and so accounts for the contract as operating lease.

Further details are disclosed in Note 28.

##### *Operating and finance lease commitments - Group as lessee*

The Group has entered into various lease contracts for office equipment, office spaces and land as lessee. The Group has determined that it has not acquired the significant risks and rewards related to the ownership of the leased properties and so accounts for the contracts as operating leases.

In addition, IMI BG and IMI CZ have various finance lease contracts related to machineries and production equipment and transportation equipment. They have determined, based on the evaluation of the terms and conditions of their respective arrangements, that they bear



substantially all the risks and rewards incidental to the ownership of the said assets and so account for the contracts as finance leases.

#### *Sale and leaseback*

In 2014, STEL entered into a sale and leaseback agreement in relation to its leasehold building. Management assessed that the transaction is an operating lease based on the following judgments:

- The selling price of the building approximates its fair value;
- The lease term do not constitute a major part of the economic life of the asset;
- The ownership of the asset will not be transferred to STEL at the end of the lease term;
- STEL does not have an option to repurchase at the end of the lease term; and
- The leased asset is not of a specialized nature.

As a result of this transaction, the gain on sale of the building was recognized immediately in profit or loss.

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.

#### *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 and collective impairment assessments. 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.

*Impairment of property, plant and equipment and intangible assets*

The Group determines, at each balance sheet date, whether there is any indication that an item of property, plant and equipment and intangible assets with finite useful lives may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or has decreased. If any such indication exists, and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or, if it is not possible, for the CGU to which the asset belongs, is written down to its recoverable amount.

Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill is allocated. The most recent detailed calculation made in a preceding period of the recoverable amount of the CGU may be used for the impairment testing for the current period provided that:

1. The assets and liabilities making up the CGU have not changed significantly from the most recent calculation;
2. The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the CGU by a significant margin; and
3. The likelihood that a current recoverable amount calculation would be less than the carrying amount of the CGU is remote, based on an analysis of events that have occurred, and circumstances that have changed since the most recent recoverable amount calculation.

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details on goodwill are disclosed in Note 10.

*Impairment of AFS equity investments*

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value of these investments below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats significant generally as 20% or more and prolonged as greater than six months for quoted equity investments. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities. Unquoted equity investments are impaired when the investee company is experiencing significant financial difficulty.



Further details on AFS financial assets are disclosed in Note 12.

#### *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 (including accrued leaves of PSl) 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.



## 5. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand	\$82,142	\$97,912
Cash in banks	63,504,005	44,887,461
Short-term investments	54,039,344	4,057,226
	<b>\$117,625,491</b>	<b>\$49,042,599</b>

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. Short-term investments in 2014 include proceeds from the public offering amounting to \$35.92 million (see Note 18).

Interest income earned from cash in banks and short-term investments amounted to \$0.20 million in 2014, \$0.22 million in 2013 and \$0.27 million in 2012.

## 6. Receivables - net

This account consists of:

	2014	2013
Trade	\$192,038,296	\$174,135,627
Nontrade	1,598,225	2,838,394
Receivable from insurance	1,066,423	1,178,785
Receivable from employees	588,787	542,944
Due from related parties (Note 29)	180,788	192,161
Others	1,825,989	3,067,488
	<b>197,298,508</b>	<b>181,955,399</b>
Less allowance for doubtful accounts	2,176,440	3,490,657
	<b>\$195,122,068</b>	<b>\$178,464,742</b>

### Trade

Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms ranging from 30 to 60 days from invoice date.

As of December 31, 2013, IMI BG's pledged receivables with UniCredit Bulbank amounted to €5.08 million (\$7.01 million) (see Note 15).

### 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 ranging from 30 to 60 days from invoice date.

### Receivable from Insurance

Receivable from insurance represents claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009. This receivable is fully provided with allowance for doubtful accounts.



Allowance for Doubtful Accounts

Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of \$2.18 million and \$3.49 million as of December 31, 2014 and 2013, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

On March 20, 2014, the long-outstanding trade and nontrade receivables of the Parent Company from a customer with aggregate nominal amount of \$1.75 million were converted to Class A common stock of the customer in full satisfaction of the latter's obligation (see Note 12). The corresponding allowance of these receivables was reversed in full.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2014				Total
	Trade	Nontrade	Receivable from Insurance	Receivable from Employees	
Balances at January 1, 2014	\$2,171,356	\$122,490	\$1,178,785	\$18,026	\$3,490,657
Provisions (reversals)	(852,611)	(47,907)	-	1,214	(899,304)
Accounts written-off	(298,698)	(2,508)	(112,362)	(1,345)	(414,913)
Balances at December 31, 2014	\$1,020,047	\$72,075	\$1,066,423	\$17,895	\$2,176,440

	December 31, 2013				Total
	Trade	Nontrade	Receivable from Insurance	Receivable from Employees	
Balances at January 1, 2013	\$2,459,173	\$124,320	\$1,178,785	\$18,026	\$3,780,304
Provisions (reversals)	(115,511)	12,387	-	-	(103,124)
Accounts written-off	(172,306)	(14,217)	-	-	(186,523)
Balances at December 31, 2013	\$2,171,356	\$122,490	\$1,178,785	\$18,026	\$3,490,657

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:

	2014	2013
Raw materials and supplies	\$67,570,479	\$70,481,190
Work-in-process	13,252,772	13,785,193
Finished goods	18,462,078	15,248,673
	<b>99,285,329</b>	99,515,056
Less allowance for:		
Inventory obsolescence	7,811,593	5,151,060
Decline in value of inventories	84,267	228,388
	<b>7,895,860</b>	5,379,448
	<b>\$91,389,469</b>	\$94,135,608

The cost of the inventories carried at NRV amounted to \$28.37 million and \$19.20 million as of December 31, 2014 and 2013, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to \$547.25 million in 2014, \$498.22 million in 2013 and \$449.06 million in 2012 (see Note 19).



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. Accordingly, gain on insurance claims amounting to \$0.33 million was recognized under "Gains on insurance claims" account in the consolidated statements of income in 2014.

Movements in the allowance for inventory obsolescence are as follows:

	2014	2013
Balances at January 1	<b>\$5,151,060</b>	\$4,349,787
Provisions (Note 21)	<b>3,737,353</b>	2,123,145
Write-offs	<b>(1,076,820)</b>	(1,321,872)
Balances at December 31	<b>\$7,811,593</b>	\$5,151,060

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

	2014	2013
Balances at January 1	<b>\$228,388</b>	\$362,936
Provisions (reversals) (Note 21)	<b>84,267</b>	(107,131)
Write-offs	<b>(228,388)</b>	(27,417)
Balances at December 31	<b>\$84,267</b>	\$228,388

The Group recognized gains (losses) from sale of materials amounting to \$0.58 million in 2014, \$0.92 million in 2013 and (\$1.82) million in 2012. Gains (losses) from sale of materials are included under "Miscellaneous income (loss) - net" account in the consolidated statements of income.

As of December 31, 2013, IMI BG's pledged inventories with UniCredit Bulbank €8.00 million (\$11.04 million), respectively (see Note 15).

## 8. Other Current Assets

This account consists of:

	2014	2013
Tax credits	<b>\$7,122,658</b>	\$12,402,958
Prepayments	<b>2,861,079</b>	1,076,126
Input taxes	<b>1,136,322</b>	1,411,528
Advances to suppliers	<b>750,335</b>	1,668,113
Current portion of deferred licensing fee	-	10,000
Others	<b>1,327</b>	51,244
	<b>\$11,871,721</b>	\$16,619,969

Tax credits are mainly attributable to IMI MX.

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.

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

Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc. in 2004 amounting to \$0.10 million, in accordance with the terms of their Micro-lead frame Patent License Agreement. This was fully amortized as of December 31, 2014.



## 9. Property, Plant and Equipment - net

Movements in this account are as follows:

	December 31, 2014						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
Balances at January 1, 2014	\$70,115,207	\$114,865,377	\$15,957,145	\$1,023,238	\$3,914,555	\$1,171,582	\$207,047,104
Additions	3,028,486	14,190,060	1,565,482	743,435	398,113	5,019,969	24,945,545
Disposals	(4,671,294)	(17,213,523)	(309,599)	(327,797)	(247,400)	(146,715)	(22,916,328)
Retirement	(37,152)	(355,289)	(5,742)	-	(33,909)	-	(432,092)
Transfers	647,944	1,762,332	153,972	-	1,737	(2,565,985)	-
Foreign currency exchange difference	(1,227,623)	(5,435,905)	(289,232)	(90,387)	-	(312,339)	(7,355,486)
Balances at December 31, 2014	67,855,568	107,813,052	17,072,026	1,348,489	4,033,096	3,166,512	201,288,743
<b>Accumulated depreciation</b>							
Balances at January 1, 2014	35,008,397	69,124,761	12,181,670	324,911	3,021,101	-	119,660,840
Depreciation	3,555,050	15,255,117	1,195,539	356,080	498,063	-	20,859,849
Disposals	(2,055,597)	(15,523,636)	(287,064)	(319,727)	(175,754)	-	(18,361,778)
Retirement	(24,533)	(252,038)	(5,742)	-	(18,104)	-	(300,417)
Foreign currency exchange difference	(223,759)	(3,482,116)	(219,158)	(64,860)	-	-	(3,989,893)
Balances at December 31, 2014	36,259,558	65,122,088	12,865,245	296,404	3,325,306	-	117,868,601
<b>Accumulated impairment losses</b>							
Balances at January 1 and December 31, 2014	736,565	983,421	12,226	-	-	-	1,732,212
<b>Net book value</b>	<b>\$30,859,445</b>	<b>\$41,707,543</b>	<b>\$4,194,555</b>	<b>\$1,052,085</b>	<b>\$707,790</b>	<b>\$3,166,512</b>	<b>\$81,687,930</b>

	December 31, 2013						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
Balances at January 1, 2013	\$72,228,680	\$128,050,382	\$16,108,919	\$1,216,621	\$3,751,507	\$1,214,071	\$222,570,180
Additions	2,086,900	10,177,887	1,937,408	246,049	428,459	5,973,276	20,849,979
Disposals	(1,718,354)	(17,131,999)	(428,241)	(463,830)	(265,411)	-	(20,007,835)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	-	-	(17,528,886)
Transfers	1,245,220	4,641,848	161,250	52,313	-	(6,100,631)	-
Foreign currency exchange difference	(291,147)	1,266,183	77,706	26,058	-	84,866	1,163,666
Balances at December 31, 2013	70,115,207	114,865,377	15,957,145	1,023,238	3,914,555	1,171,582	207,047,104
<b>Accumulated depreciation</b>							
Balances at January 1, 2013	36,498,492	80,145,011	13,081,121	425,019	2,622,129	-	132,771,772
Depreciation	3,507,838	15,360,988	1,323,320	305,304	572,649	-	21,070,099
Disposals	(1,594,516)	(14,740,564)	(384,327)	(371,141)	(173,677)	-	(17,264,225)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	-	-	(17,528,886)
Foreign currency exchange difference	32,675	498,250	61,453	19,702	-	-	612,080
Balances at December 31, 2013	35,008,397	69,124,761	12,181,670	324,911	3,021,101	-	119,660,840
<b>Accumulated impairment losses</b>							
Balances at January 1, 2013	736,565	978,430	12,226	-	-	-	1,727,221
Impairment loss	-	4,991	-	-	-	-	4,991
Balances at December 31, 2013	736,565	983,421	12,226	-	-	-	1,732,212
<b>Net book value</b>	<b>\$34,370,245</b>	<b>\$44,757,195</b>	<b>\$3,763,249</b>	<b>\$698,327</b>	<b>\$893,454</b>	<b>\$1,171,582</b>	<b>\$85,654,052</b>

STEL owns a light industrial building located at 20 Kian Teck Lane Singapore 627854 sited on a land area of 3,993 square meters and is held under a lease issued by JTC Corporation (JTC) (see Note 28).

On August 27, 2014, STEL entered into an agreement relating to the sale and leaseback of the building with DBS Trustee Limited (DBSTL), in its capacity as trustee of Soilbuild Business Space REIT (SBSR), for a purchase consideration of SGD22.40 million (\$17.19 million), subject to the fulfillment of certain conditions precedent. The cost of the property amounted to \$4.67 million, with accumulated depreciation of \$2.05 million. On December 23, 2014, the transaction was completed and the Group recognized gain on sale of the property amounting to \$14.33 million. Expenses related to the sale amounted to \$0.24 million (see Note 28).

Also, the Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to \$0.18 million in 2014 and \$0.13 million in 2013 and 2012.

As of December 31, 2014 and 2013, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to \$154.98 million and \$92.89 million, respectively.



The carrying values of equipment under finance lease amounted to \$4.03 million and \$5.25 million as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, IMI BG's pledged equipment with BNP Paribas amounted to \$1.55 million (see Note 16).

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

	2014	2013	2012
Cost of goods sold and services (Note 19)	<b>\$18,332,968</b>	\$18,698,523	\$20,448,129
Operating expenses (Note 20)	<b>2,526,881</b>	2,371,576	2,871,305
	<b>\$20,859,849</b>	\$21,070,099	\$23,319,434

## 10. Goodwill

As of December 31, 2014 and 2013, goodwill acquired through business combinations had been allocated to five individual CGUs as follows:

	2014	2013
STEL Group	<b>\$45,128,024</b>	\$45,128,024
IMI USA	<b>656,610</b>	656,610
IMI CZ	<b>650,413</b>	650,413
Parent Company	<b>441,166</b>	441,166
PSi	-	7,478,980
	<b>\$46,876,213</b>	\$54,355,193

As mentioned in Note 3, goodwill is tested for impairment annually as of September 30 every year and when circumstances indicate that the carrying amount is impaired. Goodwill impairment for PSi was re-assessed as of December 31, 2014 due to circumstances that indicated that the recoverable amount of the CGU was less than the carrying amount.

### STEL Group, PSi, IMI USA 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:

	2014	2013
STEL Group	<b>10.18%</b>	13.07%
PSi	<b>11.07%</b>	14.11%
IMI USA	<b>8.47%</b>	13.69%
IMI CZ	<b>10.50%</b>	12.73%

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 STEL Group, IMI USA, and IMI CZ in 2014, 2013 and 2012.

For PSi, the assessment resulted to an impairment loss for the remaining balance of the goodwill amounting to \$7.48 million in 2014 but no impairment losses in 2013 and 2012.

*Sensitivity to changes in assumptions*

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

This pertains to the goodwill from the Parent Company's purchase 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 comparison of the recoverable amount and the carrying amount resulted to no impairment loss in 2014, 2013 and 2012.

## 11. Intangible Assets

Movements in this account are as follows:

	December 31, 2014			
	Customer Relationships	Unpatented Technology	Computer Software	Total
<b>Cost</b>				
Balances at January 1, 2014	\$19,666,617	\$100,000	\$3,730,119	\$23,496,736
Additions	-	-	1,287,611	1,287,611
Foreign currency exchange difference	-	-	(163,015)	(163,015)
Balances at December 31, 2014	19,666,617	100,000	4,854,715	24,621,332
<b>Accumulated amortization</b>				
Balances at January 1, 2014	16,170,531	100,000	2,364,475	18,635,006
Amortization	1,353,323	-	767,111	2,120,434
Foreign currency exchange difference	-	-	(136,853)	(136,853)
Balances at December 31, 2014	17,523,854	100,000	2,994,733	20,618,587
<b>Net book value</b>	<b>\$2,142,763</b>	<b>\$-</b>	<b>\$1,859,982</b>	<b>\$4,002,745</b>

	December 31, 2013			
	Customer Relationships	Unpatented Technology	Computer Software	Total
<b>Cost</b>				
Balances at January 1, 2013	\$19,666,617	\$100,000	\$2,897,761	\$22,664,378
Additions	-	-	776,158	776,158
Foreign currency exchange difference	-	-	56,200	56,200
Balances at December 31, 2013	19,666,617	100,000	3,730,119	23,496,736
<b>Accumulated amortization</b>				
Balances at January 1, 2013	14,817,208	100,000	1,853,049	16,770,257
Amortization	1,353,323	-	436,449	1,789,772
Foreign currency exchange difference	-	-	74,977	74,977
Balances at December 31, 2013	16,170,531	100,000	2,364,475	18,635,006
<b>Net book value</b>	<b>\$3,496,086</b>	<b>\$-</b>	<b>\$1,365,644</b>	<b>\$4,861,730</b>



Customer Relationships

Customer relationships pertain to STEL Group's and IMI BG's noncontractual and contractual agreements, respectively, 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, 2014 and 2013.

Unpatented Technology

Unpatented technology of STEL pertains to products which are technologically feasible. The following technologies are also unique, difficult to design around, and meet the separability criteria:

- Self-bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

Computer Software

This includes acquisitions of computer software, applications and modules.

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

	2014	2013	2012
Cost of goods sold and services (Note 19)	<b>\$6,182</b>	\$11,290	\$17,148
Operating expenses (Note 20)	<b>2,114,252</b>	1,778,482	2,040,478
	<b>\$2,120,434</b>	\$1,789,772	\$2,057,626

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

This account consists of:

	2014	2013
Investment securities	<b>\$1,753,589</b>	\$1,350,368
Club shares	<b>522,361</b>	516,726
	<b>2,275,950</b>	1,867,094
Less allowance for impairment loss on AFS financial assets	<b>1,753,589</b>	-
	<b>\$522,361</b>	\$1,867,094

As of December 31, 2014, the balance of investment securities pertains to the trade and nontrade receivables from a customer which was converted to Class A common stock (see Note 6). This investment was provided with full allowance in 2014 due to the investee company's financial difficulties.

As of December 31, 2013, investment securities was composed of 8% non-cumulative, convertible preferred shares and convertible notes amounting to \$1.35 million. In 2014, the full amount of these investments was written off and is included under "Miscellaneous income (loss) - net" account in the consolidated statements of income.



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**13. Other Noncurrent Assets**

This account consists of:

	2014	2013
Miscellaneous deposits	<b>\$1,705,650</b>	\$2,357,537
Others	<b>172,103</b>	225,749
	<b>\$1,877,753</b>	<b>\$2,583,286</b>

Miscellaneous deposits include electric and water meter deposits.

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**14. Accounts Payable and Accrued Expenses**

This account consists of:

	2014	2013
Trade payables	<b>\$119,390,018</b>	\$120,669,723
Accrued expenses	<b>25,222,419</b>	24,897,256
Accrued compensation and benefits	<b>24,691,621</b>	15,233,977
Nontrade payables	<b>6,347,988</b>	4,116,382
Taxes payable	<b>1,502,367</b>	720,216
Dividends payable	<b>898,700</b>	858,539
Current portion of obligation under finance lease (Note 28)	<b>853,164</b>	907,761
Employee-related contributions	<b>645,131</b>	627,590
Advances from customers	<b>518,495</b>	1,070,119
Accrued interest payable	<b>449,305</b>	471,700
Customers' deposits	<b>304,625</b>	650,953
Current portion of obligation under deferred revenue (Note 17)	<b>299,476</b>	287,568
Due to related parties (Note 29)	<b>33,715</b>	41,604
Others	<b>930,209</b>	501,186
	<b>\$182,087,233</b>	<b>\$171,054,574</b>

Trade Payables

Trade payables are noninterest-bearing and are normally settled on 15 to 60-day terms.

Accrued Expenses

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

Accrued Compensation and Benefits

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

Nontrade Payables

This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other non-trade related payables. These payables are normally settled on 30 to 60-day terms.

Employee-related Contributions

This account consists mainly of remittances related to government agencies such as Social Security Services, Pag-ibig and Philhealth.



## 15. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

	2014	2013
Parent Company	<b>\$29,000,000</b>	\$24,000,000
STEL	<b>13,500,000</b>	3,501,332
PSi	<b>9,594,452</b>	9,422,426
IMI MX	-	2,183,092
IMI BG	-	6,547,015
	<b>\$52,094,452</b>	<b>\$45,653,865</b>

### Parent Company

As of December 31, 2014 and 2013, the Parent Company has short-term loans aggregating to \$29.0 million, and \$24.0 million, respectively. The short-term loans have maturities ranging from 30 to 180 days, and fixed interest rates ranging from 1.75% to 2.20% in 2014, 1.90% to 2.40% in 2013, and 1.64% to 2.00% in 2012.

The Parent Company incurred interest expense on its short-term loans amounting to \$0.64 million in 2014, \$0.50 million in 2013 and \$0.27 million in 2012 (see Note 22).

### STEL

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 1.93% to 2.38% in 2014, 2.30% to 2.39% in 2013, and 3.36% to 3.55% in 2012, 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 \$0.17 million in 2014, \$0.04 million in 2013 and \$0.40 million in 2012 (see Note 22).

### PSi

PSi has short-term loans from Metropolitan Bank & Trust Co. amounting to \$9.20 million as of December 31, 2014 and 2013, and trust receipts payable amounting to \$0.39 million and \$0.22 million as of December 31, 2014 and 2013, 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 ranging from 2.23% to 2.53% in 2014, 2.16% to 2.57% in 2013, and 2.21% to 2.71% in 2012. This credit facility is renewable annually, and the current term is until May 30, 2015.

The undrawn credit facility amounted to \$0.41 million and \$0.58 million as of December 31, 2014 and 2013, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to \$0.23 million in 2014, \$0.22 million in 2013 and \$0.26 million in 2012 (see Note 22).

### IMI MX

IMI MX has a revolving credit line with Banamex amounting to \$2.18 million as of December 31, 2013 with term not exceeding twelve months and bears interest based on London Interbank Offered Rate (LIBOR) plus 2.00%.

IMI MX incurred interest expense on its short-term loan amounting to \$0.08 million in 2013 (see Note 22).



IMI BG

IMI BG has short-term loans from the following banks as of December 31, 2013:

Unicredit Bulbank	\$5,167,138
BNP Paribas	1,379,877
	<u>\$6,547,015</u>

The loans from UniCredit Bulbank and BNP Paribas are from revolving credit facilities with terms not exceeding one year and bear interest based on 1-month Euro Interbank Offered Rate (EURIBOR) plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

The credit facility with UniCredit Bulbank is subject to the following collaterals:

- First ranking pledge on materials, ready-made and unfinished production at balance sheet value, minimum of €8,000,000 (see Note 7);
- First ranking pledge on receivables from a certain customer (see Note 6); and
- Notary signed Soft Letter of Comfort from the Parent Company.

IMI BG's loan with UniCredit Bulbank as of December 31, 2013 amounting to \$5.17 million was fully settled in the first quarter of 2014. The short-term loan with BNP Paribas was refinanced as long-term in 2014 (see Note 16).

As of December 31, 2013, IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million (\$18.05 million), respectively (see Notes 6 and 7).

The loan from BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €3,750,000; and
- First rank pledge on goods of IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750,000.

IMI BG incurred interest expense on its short-term loan amounting to \$0.21 million in 2013 and \$0.39 million in 2012 (see Note 22).

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**16. Long-Term Debt**

This account consists of borrowings of the following entities:

	2014	2013
Parent Company	<b>\$46,091,500</b>	\$46,898,500
Cooperatief	<b>12,442,999</b>	16,892,242
IMI BG	<b>974,864</b>	-
IMI CZ	<b>590,027</b>	812,419
	<b>60,099,390</b>	64,603,161
Less current portion:		
Cooperatief	<b>2,428,200</b>	2,758,200
IMI BG	<b>243,716</b>	-
IMI CZ	<b>128,724</b>	145,208
	<b>2,800,640</b>	2,903,408
Noncurrent portion	<b>\$57,298,750</b>	\$61,699,753



#### Parent Company

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 at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company obtained a €5.00 million (\$6.90 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of 6-month LIBOR plus 1.50% spread per annum.

The Parent Company incurred interest expense on its long-term loans amounting to \$0.81 million in 2014 and 2013 and \$0.90 million in 2012 (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, 2014 and 2013, the Parent Company has complied with all of the above-mentioned loan covenants.

#### Cooperatief

Under the SPA, 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 €2.00 million (\$2.58 million) in 2014 and €2.00 million (\$2.76 million) in 2013.

Below is the amortization schedule:

<u>Due Dates</u>	<u>In EUR</u>	<u>In USD</u>
2015	€2,000,000	\$2,428,200
2016	2,000,000	2,428,200
2017	2,000,000	2,428,200
2018	4,248,743	5,158,399
	€10,248,743	\$12,442,999

Cooperatief incurred interest expense on its long-term debt amounting to \$0.47 million in 2014, \$0.55 million in 2013, and \$0.57 million in 2012 (see Note 22).



IMI BG

IMI BG has a long-term debt from BNP Paribas 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 and no borrowing costs were capitalized in 2014.

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 the carrying value of \$1.55 million (see Note 9).

IMI BG incurred interest expense amounting to \$0.18 million in 2014 (see Note 22).

IMI CZ

IMI CZ has a long-term debt from Citibank that relates to a term loan facility for the purchase of its new SMT machine. The debt bears 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 \$0.02 million in 2014 and 2013 (see Note 22).

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**17. Deferred Revenue**

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 for any reason, the cash advances, less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2014 and 2013, the current and noncurrent portion of the advances from the local customer follows:

	<b>2014</b>	2013
Total outstanding advances from the local customer	<b>\$1,742,329</b>	\$2,029,897
Less current portion (Note 14)	<b>299,476</b>	287,568
Noncurrent portion	<b>\$1,442,853</b>	\$1,742,329



## 18. Equity

### Capital Stock

This account consists of:

	2014		2013		2012	
	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	<b>1,500,000,000</b>		1,500,000,000		1,500,000,000	
<b>Issued - Common</b>						
Balances at January 1	<b>1,572,129,429</b>	<b>\$30,016,551</b>	1,571,874,431	\$30,011,256	1,354,230,740	\$24,932,075
Issuances during the year:						
Public offering	<b>215,000,000</b>	<b>4,789,485</b>	-	-	-	-
ESOWN	<b>3,286,750</b>	<b>70,580</b>	254,998	5,295	17,643,691	333,097
EPIQ NV	-	-	-	-	200,000,000	4,746,084
Balances at December 31*	<b>1,790,416,179</b>	<b>\$34,876,616</b>	1,572,129,429	\$30,016,551	1,571,874,431	\$30,011,256
<b>Issued - Preferred</b>						
Balances at January 1 and December 31	<b>1,300,000,000</b>	<b>\$26,601,155</b>	1,300,000,000	\$26,601,155	1,300,000,000	\$26,601,155

\* Out of the total issued shares, 15,892,124 shares as of December 31, 2014 and 15,892,109 shares as of December 31, 2013 and 2012 pertain to treasury shares.

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at a dividend rate of 2.90% rate per annum, cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer, and certificated.

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 (see Note 5).

On October 23, 2009, the Philippine SEC approved the registration of 1,268,497,252 common shares of the Parent Company with ₱1.00 par value.

As of December 31, 2014, 2013 and 2012, there were 456, 526 and 562 registered common stockholders, respectively.

### Subscribed Capital Stock

Details of this account follow:

	2014		2013		2012	
	Shares	Amount	Shares	Amount	Shares	Amount
Balances at January 1	<b>57,141,000</b>	<b>\$1,229,926</b>	60,421,000	\$1,300,851	283,909,186	\$6,506,970
Subscriptions during the year - ESOWN	<b>31,797,958</b>	<b>708,590</b>	-	-	-	-
Issuances during the year:						
ESOWN	<b>(3,286,750)</b>	<b>(70,580)</b>	(254,998)	(5,295)	(17,643,691)	(333,097)
EPIQ NV	-	-	-	-	(200,000,000)	(4,746,084)
Forfeitures during the year - ESOWN	<b>(3,276,342)</b>	<b>(70,298)</b>	(3,025,002)	(65,630)	(5,844,495)	(126,938)
Balances at December 31	<b>82,375,866</b>	<b>\$1,797,638</b>	57,141,000	\$1,229,926	60,421,000	\$1,300,851



Subscriptions Receivable

Details of this account are as follows:

	2014	2013	2012
Balances at January 1	<b>\$9,590,746</b>	\$9,650,842	\$10,395,200
Forfeitures during the year	<b>(622,524)</b>	(647,750)	(1,400,751)
Collections during the year	<b>(328,621)</b>	(207,888)	(19,911)
Accretion during the year (Note 26)	<b>79,418</b>	795,542	676,304
Subscriptions during the year	<b>4,187,765</b>	-	-
Balances at December 31 (Note 26)	<b>\$12,906,784</b>	\$9,590,746	\$9,650,842

Additional Paid-in Capital

Costs directly attributable to the issuance of new common shares in relation to the public offering 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.

Dividends

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

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 March 3, 2014, payable on March 19, 2014.

2013

On November 29, 2013, the Parent Company's BOD approved a new dividend rate on preferred shares from 8.25% to 2.90% per annum. The BOD also approved the declaration and payment of quarterly dividends for 2014 to all shareholders of the Parent Company's preferred shares.

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 7, 2014	May 7, 2014	August 7, 2014	November 7, 2014
Payment date	February 21, 2014	May 21, 2014	August 22, 2014	November 21, 2014
Amount	\$217,772	\$212,986	\$222,559	\$217,772

2012

On December 10, 2012, the Parent Company's BOD approved the declaration and payment of the quarterly dividends of 8.25% per annum for 2013 to all shareholders of the Parent Company's preferred shares. 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 8, 2013	May 8, 2013	August 9, 2013	November 11, 2013
Payment date	February 21, 2013	May 21, 2013	August 23, 2013	November 22, 2013
Amount	\$662,846	\$655,106	\$684,699	\$662,846



Retained Earnings

On December 10, 2012, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to \$10.00 million.

Accumulated net earnings of the subsidiaries amounting to \$63.48 million and \$53.13 million as of December 31, 2014 and 2013, 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.

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, 2014 amounted to (\$4.27) million, before the reversal of the appropriated retained earnings, as discussed in Note 34.

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

This account consists of:

	2014	2013	2012
Direct, indirect and other material-related costs (Note 7)	<b>\$547,251,922</b>	\$498,220,475	\$449,059,291
Direct labor, salaries, wages and employee benefits (Note 25)	<b>144,418,120</b>	120,088,886	97,455,209
Depreciation and amortization (Notes 9 and 11)	<b>18,339,150</b>	18,709,813	20,465,277
Facilities costs and others (Note 21)	<b>40,531,872</b>	40,083,789	37,933,642
	<b>\$750,541,064</b>	\$677,102,963	\$604,913,419

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**20. Operating Expenses**

This account consists of:

	2014	2013	2012
Salaries, wages and employee benefits (Note 25)	<b>\$35,769,440</b>	\$31,856,630	\$26,902,826
Depreciation and amortization (Notes 9 and 11)	<b>4,641,133</b>	4,150,058	4,911,783
Facilities costs and others (Note 21)	<b>23,821,906</b>	19,787,988	17,709,023
	<b>\$64,232,479</b>	\$55,794,676	\$49,523,632



## 21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2014	2013	2012	2014	2013	2012
Utilities	\$10,863,335	\$11,507,507	\$13,408,630	\$845,160	\$1,099,034	\$935,136
Variable overhead	10,085,587	8,336,469	3,751,925	—	—	—
Repairs and maintenance	8,112,925	7,319,614	6,249,440	531,423	599,233	856,785
Outsourced activities	7,491,405	6,533,853	5,139,000	6,006,755	5,907,212	5,915,728
Government-related	1,235,608	1,312,753	1,132,098	3,439,593	3,562,265	1,725,075
Insurance	692,566	801,624	758,459	1,177,782	1,072,684	948,695
Technology-related	637,437	211,685	90,820	1,361,518	1,800,141	1,949,604
Staff house	577,605	977	841	346,955	294,622	325,824
Travel	545,473	622,964	1,158,276	1,906,188	1,803,638	2,112,897
Postal and communication	404,019	322,637	121,147	867,256	943,065	986,286
Promotional materials, representation and entertainment	148,576	185,416	67,229	900,744	821,979	518,765
Membership fees	2,187	634	92	90,386	89,998	51,453
Provision (reversal of provision) for inventory obsolescence (Note 7)	—	220,256	593,469	3,737,353	1,902,889	(310,521)
Provision (reversal of provision) for allowance for decline in value of inventories (Note 7)	—	(107,131)	—	84,267	—	—
Loss (reversal of loss) on purchase commitments	—	(51,552)	131,885	—	—	—
Sales commission	—	—	—	1,084,492	731,918	753,667
Provision (reversal of provision) for doubtful accounts (Note 6)	—	—	—	(899,304)	(103,124)	441,498
Others	(264,851)	2,866,083	5,330,331	2,341,339	(737,566)	498,131
	<b>\$40,531,872</b>	<b>\$40,083,789</b>	<b>\$37,933,642</b>	<b>\$23,821,907</b>	<b>\$19,787,988</b>	<b>\$17,709,023</b>

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.

## 22. Interest Expense and Bank Charges

This account consists of:

	2014	2013	2012
Interest expense on loans (Notes 15 and 16)	\$2,517,542	\$2,429,992	\$2,795,360
Bank charges	75,348	136,697	81,621
Others	221,913	313,252	144,492
	<b>\$2,814,803</b>	<b>\$2,879,941</b>	<b>\$3,021,473</b>

Others include interest on finance lease obligations and employees' car and housing loans.



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## 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, 2014, there are four remaining project activities with ITH entitlement which will expire in 2017. 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, Income Tax Holiday (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, STCQ 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 25% in 2014, 2013 and 2012 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 is subject to taxation at the statutory tax rate of 25% in 2014, 2013 and 2012 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five years, commencing from the first profitable year in 2008, that is, after all tax losses have been fully offset in accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises."

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises." STJX is in its eighth profitable year, and hence, is subject to taxation at the rate of 25% in 2014, 2013 and 2012 on the taxable income as reported in the financial statements of STJX 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 2014, 2013 and 2012 on the assessable profit for the year.

#### *Cooperatief*

Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 25%, 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 2014, 2013 and 2012 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 2014, 2013 and 2012 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 2014, 2013 and 2012 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 2014, 2013 and 2012 is 33% based on net income.

*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, 2014, there were no PEZA registered activities with ITH entitlement.

Deferred Tax

Recognized deferred taxes of the Group relate to the tax effects of the following:

	2014	2013
<b>Deferred tax assets:</b>		
Revaluation of property, plant and equipment of subsidiaries	<b>\$791,804</b>	\$444,245
Allowance for inventory obsolescence	<b>511,499</b>	75,134
Allowance for doubtful accounts	<b>361,870</b>	15,366
Others	<b>66,483</b>	109,798
	<b>\$1,731,656</b>	\$644,543
<b>Deferred tax liabilities:</b>		
Revaluation of property, plant and equipment and intangibles of subsidiaries	<b>\$1,434,399</b>	\$1,646,260
Unrealized foreign exchange gain on monetary assets - net	-	62,412
Accelerated depreciation	-	202,052
Others	-	1,181,166
	<b>\$1,434,399</b>	\$3,091,890



PSi has unrecognized deferred tax assets as of December 31, 2014 and 2013, and IMI CZ has unrecognized deferred tax assets as of December 31, 2013.

*PSi*

As of December 31, 2014 and 2013, the temporary differences for which no deferred tax assets have been recognized are as follows:

	2014	2013
Accumulated impairment losses on property, plant and equipment	<b>\$9,695,203</b>	\$9,740,318
Advances from customer	<b>1,742,329</b>	2,029,897
Excess of:		
Cost over NRV of inventories	<b>1,164,694</b>	1,733,928
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	<b>480,695</b>	443,027
Accrued retirement benefits obligation	<b>1,275,339</b>	1,247,677
Allowance for doubtful accounts	<b>376,222</b>	441,165
	<b>\$14,734,482</b>	\$15,636,012

*IMI CZ*

As of December 31, 2013, the temporary differences and tax losses for which no deferred tax assets have been recognized are as follows:

Tax losses	\$3,175,932
Noncurrent assets	1,294,737
Provisions	421,053
Excess of cost over NRV of inventories	184,211
Allowance for doubtful accounts	31,579
	<b>\$5,107,512</b>

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. PSi will reassess the unrecognized deferred tax assets to the extent that it has become probable that sufficient future taxable profits would allow the deferred tax assets to be recovered.

As of December 31, 2014 and 2013, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries 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 effective income tax of the Group is as follows:

	2014	2013	2012
Income before income tax	<b>\$35,191,291</b>	\$13,723,319	\$4,891,736
Tax on:			
Income from foreign subsidiaries	<b>7,502,756</b>	4,348,720	3,820,307
Income subject to 5% gross income tax	<b>1,173,753</b>	979,448	831,774
Income subject to RCIT	<b>217,976</b>	51,629	35,497
Others	<b>33,274</b>	28,843	-
Current income tax expense	<b>8,927,759</b>	5,408,640	4,687,578
Deferred income tax benefit	<b>(2,727,851)</b>	(881,359)	(728,268)
Effective income tax	<b>\$6,199,908</b>	\$4,527,281	\$3,959,310



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:

	2014	2013	2012
Statutory income tax	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	59.96%	39.98%	109.42%
Income subject to gross income tax	(14.49%)	(25.82%)	(13.76%)
Difference in tax jurisdiction	(54.04%)	(10.80%)	(42.19%)
Income subject to ITH	(3.79%)	(0.28%)	(1.65%)
Interest income subjected to final tax	(0.02%)	(0.09%)	(0.88%)
Provision for income tax	17.62%	32.99%	80.94%

#### 24. Earnings per Share (EPS)

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

	2014	2013	2012
Net income	\$29,117,024	\$10,472,995	\$5,584,613
Less dividends on preferred stock (Note 18)	851,495	871,089	2,665,497
	\$28,265,529	\$9,601,906	\$2,919,116
Weighted average number of common shares outstanding	1,632,132,778	1,616,151,239	1,621,760,776
Basic and diluted EPS	\$0.017	\$0.006	\$0.002

As of December 31, 2014, 2013 and 2012, the Group has no dilutive potential common shares.

#### 25. Personnel Costs

Salaries, wages, and employee benefits follow:

	2014	2013	2012
Salaries and benefits	\$130,621,781	\$114,869,711	\$108,920,744
Retirement expense under defined contribution plans	5,649,301	4,607,873	2,575,242
Social security costs	2,357,681	2,727,124	1,375,183
Net retirement expense under defined benefit plans	2,061,727	1,682,245	2,199,943
Others	39,497,070	28,058,563	9,286,923
	\$180,187,560	\$151,945,516	\$124,358,035



Others include expenses for subcontracting costs, leave benefits, training and seminars, employee social and recreation, bonuses, Pag-ibig premium, health premium, employee insurance expenses, and other employee benefits.

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

	2014	2013	2012
Cost of goods sold and services (Note 19)	<b>\$144,418,120</b>	\$120,088,886	\$97,455,209
Operating expenses (Note 20)	<b>35,769,440</b>	31,856,630	26,902,826
	<b>\$180,187,560</b>	\$151,945,516	\$124,358,035

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, 2014.

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:

	2014	2013
Parent Company	<b>\$3,042,606</b>	\$5,111,162
PSi	<b>1,275,339</b>	1,247,677
IMI BG	<b>393,606</b>	383,969
	<b>\$4,711,551</b>	\$6,742,808



Parent Company, PSi and IMI BG

Changes in net retirement liabilities of the Parent Company, PSi and IMI BG's defined benefit plans as of December 31, 2014 and 2013 are as follows:

	December 31, 2014						December 31, 2014						December 31, 2014
	Net Retirement Expense					Separation and Benefits Paid	Remeasurements					Foreign Currency Exchange Difference	
	January 1, 2014	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal		Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal		
Present value of defined benefit obligation	\$19,524,484	\$1,721,912	\$1,020,869	\$2,557	\$2,745,338	(\$662,992)	\$-	(\$489,178)	\$-	(\$3,156,851)	(\$3,646,029)	(\$141,443)	\$17,819,358
Fair value of plan assets	(12,781,676)	-	(683,611)	-	(683,611)	-	261,520	-	-	261,520	95,960	(13,107,807)	
Net retirement liabilities	\$6,742,808	\$1,721,912	\$337,258	\$2,557	\$2,061,727	(\$662,992)	\$261,520	(\$489,178)	\$-	(\$3,156,851)	(\$3,384,509)	(\$45,483)	\$4,711,551

	December 31, 2013						December 31, 2013						December 31, 2013
	Net Retirement Expense					Separation and Benefits Paid	Remeasurements					Foreign Currency Exchange Difference	
	January 1, 2013	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal		Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal		
Present value of defined benefit obligation	\$15,332,280	\$1,385,637	\$842,341	\$202,918	\$2,430,896	(\$1,286,407)	\$-	\$221,801	\$-	\$4,173,837	\$4,395,638	(\$1,347,923)	\$19,524,484
Fair value of plan assets	(12,989,255)	-	(748,651)	-	(748,651)	-	(55,801)	-	-	(55,801)	1,012,031	(12,781,676)	
Net retirement liabilities	\$2,343,025	\$1,385,637	\$93,690	\$202,918	\$1,682,245	(\$1,286,407)	(\$55,801)	\$221,801	\$-	\$4,173,837	\$4,339,837	(\$335,892)	\$6,742,808

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, 2014 and 2013 follows:

	2014	2013
Government securities	\$7,449,068	\$6,559,361
Trust funds	1,564,730	2,375,637
Cash and cash equivalents	1,472,042	39,285
Mutual funds	1,281,587	-
Investment properties	473,614	477,081
Corporate bonds	466,451	1,910,082
Equities	264,870	262,169
Liabilities	(13,210)	(12,896)
Loans	-	1,157,758
Others	148,655	13,199
	<b>\$13,107,807</b>	<b>\$12,781,676</b>

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

	December 31, 2014			Total
	Equity Securities	Debt Securities	Other Securities	
<b>Fair Value</b>				
AC shares/bonds	\$294,002	\$-	\$-	\$294,002
BPI shares/bonds	-	-	1,312,490	1,312,490
ALI shares/bonds	-	33,809	-	33,809
	<b>\$294,002</b>	<b>\$33,809</b>	<b>\$1,312,490</b>	<b>\$1,640,301</b>
<b>Carrying Value</b>				
AC shares/bonds	\$290,698	\$-	\$-	\$290,698
BPI shares/bonds	-	-	1,258,816	1,258,816
ALI shares/bonds	-	33,542	-	33,542
	<b>\$290,698</b>	<b>\$33,542</b>	<b>\$1,258,816</b>	<b>\$1,583,056</b>
<b>Unrealized Gain</b>				
AC shares/bonds	\$3,304	\$-	\$-	\$3,304
BPI shares/bonds	-	-	53,674	53,674
ALI shares/bonds	-	267	-	267
	<b>\$3,304</b>	<b>\$267</b>	<b>\$53,674</b>	<b>\$57,245</b>

	December 31, 2013			Total
	Equity Securities	Debt Securities	Other Securities	
<b>Fair Value</b>				
AC shares/bonds	\$-	\$296,154	\$-	\$296,154
BPI shares/bonds	-	-	688,415	688,415
	<b>\$-</b>	<b>\$296,154</b>	<b>\$688,415</b>	<b>\$984,569</b>
<b>Carrying Value</b>				
AC shares/bonds	\$-	\$292,826	\$-	\$292,826
BPI shares/bonds	-	-	761,311	761,311
	<b>\$-</b>	<b>\$292,826</b>	<b>\$761,311</b>	<b>\$1,054,137</b>
<b>Unrealized Gain (Loss)</b>				
AC shares/bonds	\$-	\$3,328	\$-	\$3,328
BPI shares/bonds	-	-	(72,896)	(72,896)
	<b>\$-</b>	<b>\$3,328</b>	<b>(\$72,896)</b>	<b>(\$69,568)</b>



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 \$1.06 million to the defined benefit plans for 2015.

The average duration of net retirement liabilities at the end of the balance sheet date is 20.20 to 22.70 years as of December 31, 2014 and 20.30 to 23.40 years as of December 31, 2013.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2014 and 2013:

	2014	2013
Less than one year	<b>\$569,329</b>	\$353,524
More than one year to five years	<b>4,657,600</b>	4,038,337
More than five years to ten years	<b>7,072,904</b>	8,022,660
More than ten years to fifteen years	<b>13,219,880</b>	15,475,297
More than fifteen years	<b>97,474,821</b>	138,444,720
	<b>\$122,994,534</b>	\$166,334,538

*Principal actuarial assumptions*

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

	2014	2013
Discount rate	<b>4.63% - 4.66%</b>	3.5% - 5.35%
Turnover rate	<b>3.07% - 12.75%</b>	0.62% - 27.94%
Salary increase rate	<b>4.00% - 5.00%</b>	5.00% - 6.00%

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	
		2014	2013
Discount rate	+1%	<b>(\$2,125,845)</b>	(\$2,588,120)
	-1%	<b>2,580,695</b>	3,176,164
Turnover rate	+2%	<b>(845,172)</b>	(1,413,062)
	-2%	<b>975,358</b>	1,689,994
Salary increase rate	+1%	<b>2,515,713</b>	3,060,944
	-1%	<b>(2,104,644)</b>	(2,539,743)



PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2014	2013
Discount rate	+1%	<b>(\$181,336)</b>	(\$192,699)
	-1%	<b>221,637</b>	233,053
Turnover rate	+2%	<b>(45,616)</b>	(46,143)
	-2%	<b>51,406</b>	52,062
Salary increase rate	+1%	<b>209,182</b>	213,220
	-1%	<b>(176,886)</b>	(179,998)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Retirement Liability	
		2014	2013
Discount rate	+1%	<b>(\$22,607)</b>	(\$23,280)
	-1%	<b>24,663</b>	25,400
Turnover rate	+2%	<b>(45,900)</b>	(47,270)
	-2%	<b>43,845</b>	45,150
Salary increase rate	+1%	<b>17,127</b>	17,640
	-1%	<b>(17,127)</b>	(17,640)

The mortality rate in 2014 and 2013 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 2014 and 2013.

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

	2014	2013	2012
Cost of goods sold and services	<b>\$1,654,285</b>	\$1,126,038	\$1,110,290
Operating expenses	<b>407,442</b>	556,207	1,089,653
	<b>\$2,061,727</b>	\$1,682,245	\$2,199,943

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:

	2014	2013	2012
Cost of goods sold and services	<b>\$4,652,375</b>	\$3,568,458	\$1,954,417
Operating expenses	<b>996,926</b>	1,039,415	620,825
	<b>\$5,649,301</b>	\$4,607,873	\$2,575,242



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## 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. Under the ESOWN, for as long as the Group remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, EBITDA and net income of ten comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once the Parent Company becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the Parent Company at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the ESOWN. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. If sixty days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to the Parent Company's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of eight years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, management has approved a 2-year moratorium on the scheduled payments due in 2008 and 2009, which resulted in an extension of the payment period from eight to ten years. This extension resulted in a net reversal of accretion amounting to \$0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.



On December 14, 2009, the Chairman of the Parent Company's BOD approved the terms for granting 30,885,000 shares of the Parent Company under ESOWN at the subscription price of ₱5.54 per share to various employees of the Group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of the Parent Company's stock at the PSE at the date of grant.

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 payment scheme and holding period for this grant are similar to the grant in 2007. The fair value of stock options granted in 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 2014, 2013 and 2012 follow:

	2014		2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balances at January 1	107,380,812	₱6.95	110,405,814	₱6.95	116,250,309	₱6.95
Forfeitures	(3,276,342)	6.95	(3,025,002)	6.95	(5,844,495)	6.95
Subscriptions	31,797,958	5.91	—	—	—	—
Balances at December 31	135,902,428	₱6.71	107,380,812	₱6.95	110,405,814	₱6.95

The balance of the subscriptions receivable amounted to \$12.91 million, \$9.59 million and \$9.65 million as of December 31, 2014, 2013 and 2012, respectively (see Note 18).

The share option expense amounted to \$0.17 million, \$0.01 million and \$0.07 million in 2014, 2013 and 2012, 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 \$0.08 million, \$0.80 million and \$0.68 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 18).

## 27. Segment Information

Management monitors operating results per geographical area (with the Philippine operations further subdivided into the Parent Company and PSi) 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.

No operating segments have been aggregated to form a reportable segment.

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, 2014, 2013 and 2012:

December 31, 2014			Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	Philippines PSi						
Revenue:								
Third party	\$204,940,387	\$44,932,489	\$325,647,491	\$268,589,961	\$354,090	\$9,651	\$-	\$844,474,069
Intersegment	200,256	-	4,362,775	213,415	2,944,034	911,822	(8,632,302)	-
<b>Total revenue</b>	<b>\$205,140,643</b>	<b>\$44,932,489</b>	<b>\$330,010,266</b>	<b>\$268,803,376</b>	<b>\$3,298,124</b>	<b>\$921,473</b>	<b>(\$8,632,302)</b>	<b>\$844,474,069</b>
Segment interest income	\$801,508	\$1,657	\$348,410	\$1,501	\$-	\$29	(\$956,834)	\$196,271
Segment interest expense	\$1,512,464	\$604,941	\$191,172	\$1,459,203	\$2,808	\$1,049	(\$956,834)	\$2,814,803
Segment profit (loss) before income tax	(\$5,175,103)	(\$1,213,530)	\$22,615,459	\$21,888,073	(\$3,545,872)	(\$961,743)	\$1,584,007	\$35,191,291
Segment provision for income tax	(1,122,750)	(121,146)	(4,376,209)	(579,223)	-	(580)	-	(6,199,908)
Segment profit (loss) after income tax	(\$6,297,853)	(\$1,334,676)	\$18,239,250	\$21,308,850	(\$3,545,872)	(\$962,323)	\$1,584,007	\$28,991,383
Net income (loss) attributable to the equity holders of the Parent Company	(\$6,297,853)	(\$1,173,942)	\$18,220,367	\$21,292,640	(\$3,545,872)	(\$962,323)	\$1,584,007	\$29,117,024

December 31, 2013			Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	Philippines PSi						
Revenue:								
Third party	\$188,897,145	\$43,084,648	\$276,522,656	\$235,808,946	\$372,446	\$346,022	\$-	\$745,031,863
Intersegment	261,711	-	4,649,240	-	2,441,304	808,165	(8,160,420)	-
<b>Total revenue</b>	<b>\$189,158,856</b>	<b>\$43,084,648</b>	<b>\$281,171,896</b>	<b>\$235,808,946</b>	<b>\$2,813,750</b>	<b>\$1,154,187</b>	<b>(\$8,160,420)</b>	<b>\$745,031,863</b>
Segment interest income	\$597,797	\$1,845	\$149,569	\$1,228	\$-	\$33	(\$531,895)	\$218,577
Segment interest expense	\$1,491,504	\$426,845	\$4,388	\$1,489,099	\$-	\$-	(\$531,895)	\$2,879,941
Segment profit (loss) before income tax	\$323,200	(\$4,833,528)	\$4,130,632	\$14,490,095	(\$378,217)	(\$8,863)	\$-	\$13,723,319
Segment provision for income tax	(488,473)	(51,629)	(2,193,264)	(1,793,245)	-	(670)	-	(4,527,281)
Segment profit (loss) after income tax	(\$165,273)	(\$4,885,157)	\$1,937,368	\$12,696,850	(\$378,217)	(\$9,533)	\$-	\$9,196,038
Net income (loss) attributable to the equity holders of the Parent Company	(\$165,273)	(\$3,514,442)	\$1,855,675	\$12,684,785	(\$378,217)	(\$9,533)	\$-	\$10,472,995

December 31, 2012			Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	Philippines PSi						
Revenue:								
Third party	\$156,419,891	\$45,598,208	\$276,656,630	\$182,233,202	\$457,897	\$483,894	\$-	\$661,849,722
Intersegment	2,661,999	-	3,859,491	-	2,695,395	908,796	(10,125,681)	-
<b>Total revenue</b>	<b>\$159,081,890</b>	<b>\$45,598,208</b>	<b>\$280,516,121</b>	<b>\$182,233,202</b>	<b>\$3,153,292</b>	<b>\$1,392,690</b>	<b>(\$10,125,681)</b>	<b>\$661,849,722</b>
Segment interest income	\$469,490	\$2,858	\$125,175	\$5,312	\$-	\$57	(\$335,800)	\$267,092
Segment interest expense	\$1,197,181	\$323,317	\$419,371	\$1,414,671	\$1,945	\$788	(\$335,800)	\$3,021,473
Segment profit (loss) before income tax	\$2,213,487	(\$10,047,323)	\$8,927,378	\$8,146,233	(\$3,573,159)	(\$774,880)	\$-	\$4,891,736
Segment provision for (benefit from) income tax	(697,757)	(42,271)	(2,677,956)	(540,396)	-	(930)	-	(3,959,310)
Segment profit (loss) after income tax	\$1,515,730	(\$10,089,594)	\$6,249,422	\$7,605,837	(\$3,573,159)	(\$775,810)	\$-	\$932,426
Net income (loss) attributable to the equity holders of the Parent Company	\$1,515,730	(\$5,179,081)	\$6,006,086	\$7,590,847	(\$3,573,159)	(\$775,810)	\$-	\$5,584,613

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 \$8.63 million in 2014, \$8.83 million in 2013 and \$10.13 million in 2012, intersegment cost of sales of \$0.20 million in 2014, \$0.26 million in 2013 and \$2.66 million in 2012, and intersegment operating expenses aggregating to \$8.22 million in 2014, \$8.57 million in 2013 and \$7.47 million in 2012.



The following table presents segment assets of the Group's geographical segments as of December 31, 2014 and 2013:

Segment assets	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
2014	\$297,116,764	\$19,378,617	\$252,990,711	\$163,223,097	\$1,436,835	\$859,846	(\$182,298,463)	\$552,707,407
2013	\$267,859,850	\$19,874,062	\$231,552,717	\$154,806,540	\$1,610,978	\$907,105	(\$188,382,436)	\$488,228,816

Segments assets do not include investments in subsidiaries and intersegment receivables amounting to \$124.15 million and \$58.01 million as of December 31, 2014, respectively, and \$132.55 million and \$63.17 million as of December 31, 2013, respectively. These are eliminated in consolidation.

Goodwill arising from the acquisition of STEL Group, IMI USA and IMI CZ amounting to \$45.13 million, \$0.66 million, and \$0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2014 and 2013. Goodwill arising from the acquisition of PSi amounting to nil and \$7.48 million for the years ended December 31, 2014 and 2013, respectively, is also recognized at consolidated level.

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

	2014	2013	2012
Europe	\$418,391,628	\$379,465,943	\$331,594,548
America	208,581,244	222,740,713	203,910,809
Japan	71,620,075	68,075,201	59,738,507
Rest of Asia/Others	145,881,122	74,750,006	66,605,858
	<b>\$844,474,069</b>	<b>\$745,031,863</b>	<b>\$661,849,722</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 12.63%, 13.51% and 11.55% of the Group's total revenue in 2014, 2013 and 2012, respectively.

The following table presents revenues per product type:

	2014	2013	2012
Automotive	\$320,532,486	\$278,269,042	\$207,949,017
Telecommunication	176,669,820	134,748,260	127,027,324
Industrial	106,273,619	108,412,410	111,465,781
Consumer	101,939,801	104,083,799	107,307,549
Multiple market	66,556,982	56,873,912	55,526,158
Computer peripherals	49,137,199	37,841,556	22,085,306
Medical	23,364,162	24,802,884	30,488,587
	<b>\$844,474,069</b>	<b>\$745,031,863</b>	<b>\$661,849,722</b>

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

	2014	2013
Europe	\$25,996,998	\$27,500,455
America	16,431,213	12,091,701
Japan	22,596	14,213
Rest of Asia/Others	90,116,081	105,264,606
	<b>\$132,566,888</b>	<b>\$144,870,975</b>

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:

	2014	2013	2012
Europe	<b>\$5,800,582</b>	\$5,156,046	\$4,138,600
America	<b>1,611,235</b>	1,318,224	999,509
Japan	<b>2,474</b>	2,550	3,196
Rest of Asia/Others	<b>15,565,991</b>	16,383,051	20,235,755
	<b>\$22,980,282</b>	\$22,859,871	\$25,377,060

## 28. Lease Commitments

### Operating Lease Commitments - Group as Lessor

STEL entered into lease contracts on its leasehold building. These non-cancellable lease contracts have remaining lease terms ranging from one to five years. However, on August 27, 2014, STEL entered into an agreement relating to the sale and purchase of the said building with DBSTL.

STEL also entered into a lease contract with Manila Water Asia Pacific Pte Ltd (MWAP), an affiliate, for the lease of office premises. The lease shall be for a period of one year, commencing on June 1, 2013 up to May 31, 2014. Monthly rental rate amounts to \$1,040.

The rental income recognized by STEL amounted to \$1.26 million, \$1.08 million and \$0.57 million in 2014, 2013 and 2012, respectively.

The future minimum rental receivable of the Group as of December 31, 2013 is as follows:

Within one year	\$1,234,000
More than one year but less than five years	1,617,000
	<b>\$2,851,000</b>

### Operating Lease Commitments - Group as Lessee

#### *Parent Company*

The Parent Company entered into a 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, 2012 up to December 31, 2014, 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 Parent Company shall pay monthly rental of ₱81,796 for 2012, ₱92,964 for 2013 and ₱105,778 for 2014. The Parent Company shall advise TLI in writing, at least sixty days before the expiration of the term, of its desire to renew the lease contract, which TLI may consider upon such terms and conditions as may be agreed between the parties.

On December 20, 2013, an amendment to the lease contract was executed modifying the terms as follows:

- The lease shall be effective from January 2, 2014 up to December 31, 2016; and
- The Parent Company shall pay monthly rental of ₱4,133,853.

#### *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 thirty-eight 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 entered into an agreement related to the sale and leaseback of the building with DBSTL, in its capacity as trustee of SBSR (see Note 9). The existing light industrial building is sited on a land area of 3,993 square meters and is held under lease issued by 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 two years.

#### *IMI USA*

On July 17, 2008, IMI USA entered into a 7-year lease contract with Roy G.G. Harris and Patricia S. Harris for the lease of office premises commencing in August 2008 up to November 2014. 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 \$13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a 6-year lease contract with Fremont Ventures, LLC commencing two months from the issuance of building permit or maximum of three months, if Fremont caused the delay. The base monthly rental rate is \$3,687 on the first six months with an escalation every eleven months, as stated in the lease contract. Average monthly rental rate amounts to \$9,523.

#### *PSi*

PSi has a cancellable 15-year operating lease agreement with FTI for its plant facilities, office spaces and other facilities, with Lot Nos. 92-A and 92-B commencing on August 15, 2004 up to August 14, 2019. 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.

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 2012, the operating lease agreement for the second facility was executed between CRI and PSi for office and warehouse use. The operating lease agreement commenced on October 13, 2012 and will expire on October 12, 2015.

The operating lease agreements with CRI provides for the increase in rental at varying rates over the term of the lease and the penalty interest rate of 3% per month using simple interest.

The aggregate rental expense of the Group, recognized on these operating lease commitments, are included in "Facilities costs and others - Outsourced activities" account under "Cost of goods sold and services" and "Operating expenses" accounts in the consolidated statements of income, amounted to \$5.29 million in 2014, \$3.47 million in 2013, and \$1.14 million in 2012 (see Note 21).



Future minimum rentals payable under operating leases of the Group as of December 31, 2014 and 2013 follow:

	2014	2013
Within one year	<b>\$4,808,220</b>	\$4,076,629
After one year but not more than five years	<b>11,557,249</b>	7,769,489
More than five years	<b>8,205,592</b>	2,580,123
	<b>\$24,571,061</b>	\$14,426,241

Finance Lease Commitments - Group as Lessee

*IMI BG*

IMI BG has various finance lease contracts with Interlease AD and UniCredit Leasing AD related to its machinery and production equipment with terms of three to five years and final repayment dates between 2014 and 2018. These leases are subject to interest rates of 3-month EURIBOR plus 2% to 4% per annum.

*IMI CZ*

IMI CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of five to ten years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment is subject to interest of 12.26% per annum.

Future minimum lease payments of the Group are as follows:

	Minimum Lease Payments		Present Value of Payments	
	2014	2013	2014	2013
Within one year (Note 14)	<b>\$952,626</b>	\$1,018,901	<b>\$853,164</b>	\$907,761
More than one year but less than five years	<b>2,367,757</b>	3,157,187	<b>2,257,583</b>	2,977,968
	<b>\$3,320,383</b>	\$4,176,088	<b>\$3,110,747</b>	\$3,885,729

**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, 2014, 2013 and 2012, 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, 2014 and 2013, the Group maintains current and savings accounts with BPI amounting to \$0.97 million and \$0.77 million, respectively.

Total interest income earned from investments with BPI amounted to \$5,338, \$2,639 and \$22,652 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

	Receivables		Payables	
	2014	2013	2014	2013
BPI	\$178,059	\$91,792	\$2,957	\$18,267
AC	1,352	—	—	—
Makati Development Corporation (MDC)	776	—	—	—
ALI	601	—	—	—
Narra VC	—	83,562	—	—
TLI	—	16,807	—	—
Innove Communication Inc. (ICI)	—	—	25,520	17,742
Globe Telecom, Inc. (GTI)	—	—	5,238	1,090
Ayala Group Legal (AG Legal)	—	—	—	4,505
	<b>\$180,788</b>	\$192,161	<b>\$33,715</b>	\$41,604

- i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are noninterest-bearing and are due quarterly.
- ii. Receivables from AC, MDC and ALI pertain to the affiliates' share on the Parent Company's expenses incurred during a group-wide conference.
- iii. PSi's outstanding receivables from Narra VC are nontrade in nature and represent payments made by PSi to settle the Pre-Completion Liabilities and which will be later reimbursed from the New Investors. Effective December 29, 2014, IMI purchased shares held by the non-controlling interests in PSi. Accordingly, the receivables from Narra VC were written off.
- iv. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.
- v. Payables to BPI are nontrade in nature and pertain to outstanding housing and automobile financing loans. The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis.
- vi. 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.
- vii. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.
- viii. Payables to AG Legal are nontrade in nature and pertain to legal services provided to the Parent Company and PSi. These are noninterest-bearing and are due within thirty days.



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

	Receivables		Payables	
	2014	2013	2014	2013
STEL	<b>\$18,426,739</b>	\$24,204,080	<b>\$7,369,725</b>	\$8,390,188
IMI EU/MX Subsidiaries	<b>14,695,248</b>	14,705,805	—	—
PSi	<b>12,820,656</b>	11,319,929	<b>296</b>	415,317
IMI Singapore	<b>1,010,247</b>	1,010,247	—	—
IMI Japan	<b>981,383</b>	979,526	<b>594,201</b>	712,569
IMI ROHQ	<b>319,924</b>	253,323	<b>1,149,654</b>	1,212,240
IMI USA	<b>253,738</b>	250,405	<b>196,433</b>	289,146
	<b>\$48,507,935</b>	\$52,723,315	<b>\$9,310,309</b>	\$11,019,460

- i. Receivables from STEL Group, IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan and IMI USA are nontrade in nature and pertain to operating cash advances made by the Parent Company.

Advances to STEL Group, IMI Singapore, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

Advances to PSi, IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.33% to 2.73% in 2014, 2.24% to 3.24% in 2013, and 2.31% to 2.81% in 2012.

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 upon availment. These receivables are due on demand.

- ii. Payables to STEL Group pertain to various expenses of the Parent Company that were advanced by the former in relation to business travel expenses of the latter's personnel. These advances are noninterest-bearing and are payable on demand.
- iii. Payables to PSi in 2013 represent payments to settle certain liabilities that had arisen prior to the entry of the New Investors, and which have been identified as the Pre-Completion Liabilities. Pursuant to the IA, the Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first \$3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the New Investors under the put and call options provision. This was settled in 2014.
- iv. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as a supervisory, communications and coordinating center for its affiliates.
- v. Payables to IMI Japan and IMI USA are trade in nature and pertain to the services rendered by IMI Japan and IMI USA. These receivables are with a 30-day term.

- d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2014	2013	2012	2014	2013	2012
MWAP	<b>\$9,868</b>	\$9,971	\$8,885	<b>\$—</b>	\$—	\$—
TLI	<b>7,371</b>	7,713	—	<b>1,115,426</b>	26,328	26,531
BPI	<b>6,021</b>	2,639	58,198	—	—	—
AG Legal	—	—	—	<b>118,774</b>	82,818	72,351
ICI	—	—	—	<b>55,971</b>	88,266	144,905
GTI	—	—	—	<b>73,337</b>	70,438	68,355
	<b>\$23,260</b>	\$20,323	\$67,083	<b>\$1,363,508</b>	\$267,850	\$312,142



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

- i. Rental income earned by STEL from lease of its office premises (see Note 28).
- ii. In 2013, the Parent Company and TLI entered into a service agreement for the Parent Company to provide TLI administrative services such as professional, clerical, financial and accounting services. The administrative services shall be for a period of three years, commencing on January 2, 2013 up to December 31, 2015, renewable upon mutual agreement by both parties. The fixed monthly service fee is ₱30,000, inclusive of all taxes.
- iii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

- i. Rental expense from the lease contract with TLI (see Note 28).
  - ii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
  - iii. Building rental, leased lines, internet connections and ATM connections with ICI.
  - iv. Billings for cellphone charges and WiFi connections with GTI.
- e. Revenue and expenses eliminated at the Group level follow:

Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs and billings for management salaries of key management personnel under IMI ROHQ.

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

Key management personnel of the Group include all management committee members.

Compensation of key management personnel by benefit type follows:

	<b>2014</b>	2013
Short-term employee benefits	<b>\$7,628,230</b>	\$7,294,687
Post-employment benefits	<b>243,459</b>	378,920
Share-based payments	<b>158,608</b>	5,262
	<b>\$8,030,297</b>	\$7,678,869



### 30. Fair Values of Financial Instruments

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, 2014 and 2013:

	Carrying Amounts		Fair Values	
	2014	2013	2014	2013
<b>Financial assets:</b>				
AFS financial assets	<b>\$522,361</b>	\$516,726	<b>\$522,361</b>	\$516,726
<b>Financial liabilities:</b>				
Derivative liabilities	\$-	\$40,606	\$-	\$40,606
Noncurrent portion of:				
Long-term debt	<b>57,298,750</b>	61,699,753	<b>64,723,021</b>	64,228,205
Obligation under finance lease	<b>2,257,583</b>	2,977,968	<b>2,274,365</b>	2,973,854
	<b>\$59,556,333</b>	\$64,718,327	<b>\$66,997,386</b>	\$67,242,665

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:

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Derivative instruments - The fair value of freestanding currency forwards is based on counterparty valuation.

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 2014 and 2013 ranged from 1.86% to 2.98% and 0.95% to 2.87%, respectively.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 3.18% to 12.26% and 2.29% to 12.30% for 2014 and 2013, respectively.

#### 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, with maturity of less than one year, are assumed to have carrying amounts approximating their fair values.

#### Fair Value Hierarchy

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

	December 31, 2014			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets measured at fair value -</b>				
AFS financial assets	<b>\$522,361</b>	\$-	\$-	<b>\$522,361</b>



	December 31, 2014			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Liabilities for which fair values are disclosed -</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	\$64,723,021	\$64,723,021
Obligation under finance lease	-	-	2,274,365	2,274,365
	\$-	\$-	\$66,997,386	\$66,997,386

	December 31, 2013			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets measured at fair value -</b>				
AFS financial assets	\$516,726	\$-	\$-	\$516,726

<b>Liabilities measured at fair value -</b>				
Derivative liabilities	\$-	\$40,606	\$-	\$40,606

<b>Liabilities for which fair values are disclosed -</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	\$64,228,205	\$64,228,205
Obligation under finance lease	-	-	2,973,854	2,973,854
	\$-	\$-	\$67,202,059	\$67,202,059

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.

### 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, 2014 and 2013. 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	
	2014	2013
+100	<b>(\$476,564)</b>	(\$564,410)
-100	<b>476,564</b>	564,410

The following table shows the information about the Group's debt as of December 31, 2014 and 2013 that are exposed to interest rate risk presented by maturity profile:

	2014	2013
Within one year	<b>\$372,440</b>	\$8,875,315
One to five years	<b>47,283,951</b>	47,565,711
	<b>\$47,656,391</b>	\$56,441,026

**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:

	2014				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
<b>Financial assets</b>					
Cash and cash equivalents*	<b>\$63,504,005</b>	<b>\$54,039,344</b>	<b>\$-</b>	<b>\$-</b>	<b>\$117,543,349</b>
<b>Financial liabilities</b>					
Accounts payable and accrued expenses:					
Trade payables	-	<b>119,390,018</b>	-	-	<b>119,390,018</b>
Accrued expenses**	-	<b>21,723,950</b>	-	-	<b>21,723,950</b>
Accrued compensation and benefits	-	<b>24,691,621</b>	-	-	<b>24,691,621</b>
Nontrade payables	-	<b>6,347,988</b>	-	-	<b>6,347,988</b>
Current portion of obligation under finance lease	-	-	<b>952,626</b>	-	<b>952,626</b>
Dividends payable	-	-	<b>898,700</b>	-	<b>898,700</b>
Employee-related payables**	-	<b>155,827</b>	-	-	<b>155,827</b>
Accrued interest payable	-	-	<b>449,305</b>	-	<b>449,305</b>
Due to related parties	-	<b>33,715</b>	-	-	<b>33,715</b>
Others	-	<b>930,209</b>	-	-	<b>930,209</b>

(Forward)



	2014				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Trust receipt and loans payable	\$-	\$-	\$52,524,685	\$-	\$52,524,685
Current portion of long-term debt	-	-	2,907,015	-	2,907,015
Noncurrent portion of long-term debt	-	245,073	735,218	62,164,758	63,145,049
Noncurrent portion of obligation under finance lease	-	-	-	2,367,757	2,367,757
	-	173,518,401	58,467,549	64,532,515	296,518,465
	<b>\$63,504,005</b>	<b>(\$119,479,057)</b>	<b>(\$58,467,549)</b>	<b>(\$64,532,515)</b>	<b>(\$178,975,116)</b>

\* Excluding cash on hand.

\*\* Excluding statutory payables.

	2013				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
<b>Financial assets</b>					
Cash and cash equivalents*	\$44,887,461	\$4,057,226	\$-	\$-	\$48,944,687
<b>Financial liabilities</b>					
Derivative liabilities	-	40,606	-	-	40,606
Accounts payable and accrued expenses:					
Trade payables	-	120,669,723	-	-	120,669,723
Accrued expenses**	-	24,067,786	-	-	24,067,786
Accrued compensation and benefits	-	15,233,977	-	-	15,233,977
Nontrade payables	-	4,116,382	-	-	4,116,382
Current portion of obligation under finance lease	-	-	1,018,901	-	1,018,901
Dividends payable	-	-	858,539	-	858,539
Employee-related payables**	-	175,211	-	-	175,211
Accrued interest payable	-	-	471,700	-	471,700
Due to related parties	-	41,604	-	-	41,604
Others	-	501,186	-	-	501,186
Trust receipt and loans payable	-	-	45,982,452	-	45,982,452
Current portion of long-term debt	-	-	4,014,417	-	4,014,417
Noncurrent portion of long-term debt	-	346,994	1,040,983	63,228,205	64,616,182
Noncurrent portion of obligation under finance lease	-	-	-	3,157,187	3,157,187
	-	165,193,469	53,386,992	66,385,392	281,808,666
	<b>\$44,887,461</b>	<b>(\$161,136,243)</b>	<b>(\$53,386,992)</b>	<b>(\$66,385,392)</b>	<b>(\$232,863,979)</b>

\* Excluding cash on hand.

\*\* Excluding statutory payables.

### Credit lines

The Group has credit lines with different financing institutions as of December 31, 2014 and 2013, as follows:

Financial Institution	2014		2013	
	Credit Limit	Available Credit Line	Credit Limit	Available Credit Line
Local:				
USD	40,000,000	13,405,548	30,000,000	1,000,000
PHP	860,000,000	860,000,000	860,000,000	860,000,000
Foreign:				
USD	38,965,000	13,465,000	22,295,000	15,790,000
Singapore Dollar (SGD)	25,000,000	25,000,000	20,000,000	16,500,000
EUR	10,880,000	7,115,468	12,839,988	11,409,501

### 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, short-term investments, 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, 2014 and 2013 is the carrying amounts of the financial assets presented in Note 30. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 37% and 35% of trade receivables relating to three major customers as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the aging analysis of receivables and miscellaneous deposits follows:

December 31, 2014								
	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	\$192,038,296	\$157,599,844	\$21,279,943	\$2,092,319	\$2,208,585	\$2,005,189	\$5,832,369	\$1,020,047
Nontrade	1,598,225	738,484	304,613	90,814	92,424	31,004	268,811	72,075
Receivable from insurance	1,066,423	-	-	-	-	-	-	1,066,423
Receivable from employees	588,787	532,280	27,319	1,121	172	2,224	7,776	17,895
Due from related parties	180,788	180,788	-	-	-	-	-	-
Others	1,825,989	1,821,869	-	-	-	-	4,120	-
	<b>\$197,298,508</b>	<b>\$160,873,265</b>	<b>\$21,611,875</b>	<b>\$2,184,254</b>	<b>\$2,301,181</b>	<b>\$2,038,417</b>	<b>\$6,113,076</b>	<b>\$2,176,440</b>
Miscellaneous deposits	\$1,705,650	\$1,705,650	\$-	\$-	\$-	\$-	\$-	\$-

December 31, 2013								
	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	\$174,135,627	\$141,879,336	\$19,157,279	\$1,883,611	\$1,988,280	\$1,805,172	\$5,250,593	\$2,171,356
Nontrade	2,838,394	1,314,190	542,082	161,610	164,475	55,177	478,370	122,490
Receivable from insurance	1,178,785	-	-	-	-	-	-	1,178,785
Receivable from employees	542,944	489,415	25,119	1,031	158	2,045	7,150	18,026
Due from related parties	192,161	192,161	-	-	-	-	-	-
Others	3,067,488	3,060,626	-	-	-	-	6,862	-
	<b>\$181,955,399</b>	<b>\$146,935,728</b>	<b>\$19,724,480</b>	<b>\$2,046,252</b>	<b>\$2,152,913</b>	<b>\$1,862,394</b>	<b>\$5,742,975</b>	<b>\$3,490,657</b>
Miscellaneous deposits	\$2,357,537	\$2,357,537	\$-	\$-	\$-	\$-	\$-	\$-

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2014 and 2013:

December 31, 2014						
	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	\$117,543,349	\$-	\$-	\$-	\$-	\$117,543,349
Receivables:						
Trade	11,687,759	145,912,085	-	-	34,438,452	192,038,296
Nontrade	738,484	-	-	-	859,741	1,598,225
Receivable from insurance	-	-	-	-	1,066,423	1,066,423
Receivable from employees	532,280	-	-	-	56,507	588,787
Due from related parties	180,788	-	-	-	-	180,788
Others	1,821,869	-	-	-	4,120	1,825,989
AFS financial assets	522,361	-	-	-	-	522,361
Miscellaneous deposits	1,705,650	-	-	-	-	1,705,650
	<b>\$134,732,540</b>	<b>\$145,912,085</b>	<b>\$-</b>	<b>\$-</b>	<b>\$36,425,243</b>	<b>\$317,069,868</b>



	December 31, 2013				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	\$48,944,687	\$-	\$-	\$-	\$-	\$48,944,687
Receivables:						
Trade	10,521,911	131,357,425	-	-	32,256,291	174,135,627
Nontrade	1,314,190	-	-	-	1,524,204	2,838,394
Receivable from insurance	-	-	-	-	1,178,785	1,178,785
Receivable from employees	489,415	-	-	-	53,529	542,944
Due from related parties	192,161	-	-	-	-	192,161
Others	3,060,626	-	-	-	6,862	3,067,488
AFS financial assets	1,867,094	-	-	-	-	1,867,094
Miscellaneous deposits	2,357,537	-	-	-	-	2,357,537
	\$68,747,621	\$131,357,425	\$-	\$-	\$35,019,671	\$235,124,717

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 2014 and 2013, 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 50% and 45% of the Group's sales for the years ended December 31, 2014 and 2013, respectively, and 49% and 37% of costs for the years ended December 31, 2014 and 2013, 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 (₱)*

	2014		2013	
	In USD	In PHP	In USD	In PHP
Cash and cash equivalents	\$18,287,996	₱817,839,183	\$1,301,522	₱57,768,395
Receivables	910,486	40,716,938	1,261,035	55,971,373
Miscellaneous deposits	1,330,605	59,504,646	1,308,741	58,088,831
Accounts payable and accrued expenses	(28,795,936)	(1,287,754,274)	(35,908,621)	(1,593,813,544)
Net retirement liabilities	(4,317,945)	(193,098,500)	(6,358,839)	(282,300,647)
Other current liabilities	-	-	(2,177,477)	(96,647,896)
Other noncurrent liabilities	(434,575)	(19,434,194)	(34,750)	(1,542,386)
Net foreign currency-denominated liabilities	(\$13,019,369)	(₱582,226,201)	(\$40,608,389)	(₱1,802,475,874)



*Singapore Dollar (SGD)*

	2014		2013	
	In USD	In SGD	In USD	In SGD
Cash and cash equivalents	\$17,422,989	SGD23,045,388	\$1,202,086	SGD1,521,608
Receivables	153,158	202,582	42,278	53,516
Accounts payable and accrued expenses	(3,274,870)	(4,331,671)	-	-
Other current liabilities	-	-	(2,062,805)	(2,611,112)
Net foreign currency-denominated assets (liabilities)	\$14,301,277	SGD18,916,299	(\$818,441)	(SGD1,035,988)

*Euro (€)*

	2014		2013	
	In USD	In EUR	In USD	In EUR
Cash and cash equivalents	\$10,539,710	€8,651,205	\$3,372,710	€2,444,524
Receivables	45,735,098	37,540,283	33,656,796	24,394,284
Accounts payable and accrued expenses	(16,730,780)	(13,732,959)	(15,267,300)	(11,065,666)
Loans payable	-	-	(900,196)	(652,458)
Short-term debt	(2,800,640)	(2,298,821)	(13,445,515)	(9,745,245)
Long-term debt	(17,298,750)	(14,199,160)	-	-
Net foreign currency-denominated assets	\$19,444,638	€15,960,548	\$7,416,495	€5,375,439

*Japanese Yen (JPY or ¥)*

	2014		2013	
	In USD	In JPY	In USD	In JPY
Cash and cash equivalents	\$214,167	¥25,781,435	\$110,783	¥20,777,535
Receivables	1,459,607	175,707,523	2,142,135	142,970,938
Miscellaneous deposits	20,693	2,491,043	23,388	162,575,616
Accounts payable and accrued expenses	(3,099,202)	(373,081,879)	(6,780,059)	(360,282,581)
Net foreign currency-denominated liabilities	(\$1,404,735)	(¥169,101,878)	(\$4,503,753)	(¥33,958,492)

*Renminbi (RMB)*

	2014		2013	
	In USD	In RMB	In USD	In RMB
Cash and cash equivalents	\$23,174,367	RMB141,838,714	\$8,791,172	RMB91,750,882
Receivables	75,142,422	459,909,194	65,967,402	345,539,841
Accounts payable and accrued expenses	(43,976,172)	(269,156,161)	(45,116,122)	(239,821,418)
Net foreign currency-denominated assets	\$54,340,617	RMB332,591,747	\$29,642,452	RMB197,469,305

*Hong Kong Dollar (HKD or HK\$)*

	2014		2013	
	In USD	In HKD	In USD	In HKD
Cash and cash equivalents	\$43,424	HK\$336,926	\$209,933	HK\$1,627,894
Receivables	1,177,086	9,133,013	1,157,866	8,978,496
Accounts payable and accrued expenses	(362,957)	(2,816,186)	(358,999)	(2,783,806)
Net foreign currency-denominated assets	\$857,553	HK\$6,653,753	\$1,008,800	HK\$7,822,584

*British Pound (GBP or £)*

	2014		2013	
	In USD	In GBP	In USD	In GBP
Cash	\$63,161	£40,582	\$-	£-
Receivables	-	-	1,024	621
Accounts payable and accrued expenses	(2,417)	(1,553)	(5,272)	(3,197)
Net foreign currency-denominated assets (liabilities)	\$60,744	£39,029	(\$4,248)	(£2,576)



*Australian Dollar (AUD)*

	2014		2013	
	In USD	In AUD	In USD	In AUD
Cash and cash equivalents	\$2	AUD3	\$3	AUD3
Accounts payable and accrued expenses	(81,562)	(100,223)	(54,619)	(61,239)
Net foreign currency-denominated liabilities	<b>(\$81,560)</b>	<b>(AUD100,220)</b>	(\$54,616)	(AUD61,236)

*Thai Baht (THB)*

	2014		2013	
	In USD	In THB	In USD	In THB
Receivables	\$-	THB-	\$1,047	THB34,398

*Swiss Franc (CHF)*

	2014		2013	
	In USD	In CHF	In USD	In CHF
Cash and cash equivalents	\$356	CHF351	\$1,411	CHF1,253
Receivables	-	-	23	20
Accounts payable and accrued expenses	(12,091)	(11,934)	(58,208)	(51,690)
Net foreign currency-denominated liabilities	<b>(\$11,735)</b>	<b>(CHF11,583)</b>	(\$56,774)	(CHF50,417)

*Danish Krone (DKK)*

	2014		2013	
	In USD	In DKK	In USD	In DKK
Accounts payable and accrued expenses	<b>(\$957)</b>	<b>(DKK5,842)</b>	(\$2,789)	(DKK15,079)

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, 2014 and 2013. 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	
		2014	2013
PHP	+1%	\$123,270	\$257,733
	-1%	(123,270)	(257,733)
SGD	+1%	(91,271)	5,839
	-1%	91,271	(5,839)
EUR	+1%	(199,056)	(100,879)
	-1%	199,056	100,879
JPY	+1%	15,791	27,143
	-1%	(15,791)	(27,143)
RMB	+1%	(532,197)	(243,729)
	-1%	532,197	243,729
HKD	+1%	(8,532)	(10,052)
	-1%	8,532	10,052

(Forward)



Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax	
		2014	2013
GBP	+1%	(\$320)	\$52
	-1%	320	(52)
AUD	+1%	590	637
	-1%	(590)	(637)
THB	+1%	–	(6)
	-1%	–	6
CHF	+1%	102	705
	-1%	(102)	(705)
DKK	+1%	5	38
	-1%	(5)	(38)

Derivatives

As of December 31, 2014 and 2013, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of \$17.00 million and \$37.00 million, respectively. As of December 31, 2014 and 2013, the outstanding forward contracts have a net negative fair value of nil and \$0.04 million, respectively. The changes in fair value of currency forwards recognized in 2014 and 2013 amounted to \$0.25 million and (\$0.62) million, 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, 2014 and 2013 follow:

	2014	2013
<b>Derivative assets:</b>		
Balances at January 1	\$–	\$2,857,010
Exercise of call option	–	(2,857,010)
Fair value of currency forwards	107,914	104,427
Fair value of settled currency forwards	(107,914)	(104,427)
Balances at December 31	\$–	\$–
<b>Derivative liabilities:</b>		
Balances at January 1	\$40,606	\$–
Fair value of currency forwards	143,010	583,489
Fair value of settled currency forwards	(183,616)	(542,883)
Balances at December 31	\$–	\$40,606

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, 2014 and 2013.

The Group is not subject to externally imposed capital requirements.



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.

	2014	2013
Trust receipts and loans payable	<b>\$52,094,452</b>	\$45,653,865
Long-term bank debt	<b>47,656,391</b>	47,710,919
Total bank debt	<b>99,750,843</b>	93,364,784
Less cash and cash equivalents	<b>117,625,491</b>	49,042,599
Net bank debt (cash)	<b>(\$17,874,648)</b>	\$44,322,185
Equity attributable to equity holders of the Parent Company	<b>\$244,051,201</b>	\$192,649,772
Debt-to-equity ratio	<b>0.41:1</b>	0.48:1
Net debt (cash)-to-equity ratio	<b>(0.07:1)</b>	0.23:1

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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 machineries and facilities equipment under finance lease amounting to \$0.73 million, \$3.03 million and \$0.78 million in 2014, 2013 and 2012, respectively, and conversion of long-outstanding trade and nontrade receivables of the Parent Company to Class A common stock amounting to \$1.75 million in 2014.

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### 34. Events after Balance Sheet Date

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. On the same day, the BOD of the Parent Company approved the declaration of cash dividend of \$0.0042 (₱0.1868) per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.





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BOA/PRC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Integrated Micro-Electronics, Inc.  
North Science Avenue  
Laguna Technopark  
Biñan, Laguna

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries (the "Group") as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated February 17, 2015. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus  
Partner  
CPA Certificate No. 43285  
SEC Accreditation No. 0075-AR-3 (Group A),  
February 14, 2013, valid until February 13, 2016  
Tax Identification No. 152-884-385  
BIR Accreditation No. 08-001998-15-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 4751272, January 5, 2015, Makati City

February 17, 2015



**INTEGRATED MICRO-ELECTRONICS, INC**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND**  
**DECLARATION**  
**DECEMBER 31, 2014**  
(in U.S. Dollars)

<b>Unappropriated retained earnings, as adjusted for dividend distribution, beginning</b>		<b>12,472,093</b>
<b>Add: Net income actually earned/realized during the year</b>		
Net loss during the year closed to Retained Earnings	(13,169,631)	
Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(438,034)	
Subtotal	(13,607,665)	
Add: Non-actual losses	—	
<b>Net income actually earned during the year</b>		<b>(13,607,665)</b>
Add (less):		
Dividend declarations during the year	(3,139,204)	
Treasury shares	(1)	<b>(3,139,205)</b>
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END</b>		<b>(4,274,777)</b>

**INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES**  
**Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2014**

	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>	✓	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓	
<b>PFRS 4</b>	Insurance Contracts		✓
	PAS 39 and PFRS 4 (Amendments) - <i>Financial Guarantee Contracts</i>		✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations		✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources		✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓	
	PAS 39 and 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</i>	NOT EARLY ADOPTED	

		Adopted	Not Adopted	Not Applicable
	<i>Date of PFRS 9 and Transition Disclosures</i>			
<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>Investment Entities</i>			✓
	PFRS10 (Amendments) - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	NOT EARLY ADOPTED		
<b>PFRS 11</b>	Joint Arrangements			✓
	PFRS 11 (Amendments) - <i>Accounting for Acquisitions of Interests in Joint Operations</i>	NOT EARLY ADOPTED		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	PFRS 12 (Amendments) - <i>Investment Entities</i>			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	PAS 32 and 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>	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<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>			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	PAS 16 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	NOT EARLY ADOPTED		
	PAS 16 (Amendments) - <i>Bearer Plants</i>	NOT EARLY ADOPTED		
<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>	NOT EARLY ADOPTED		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	PAS 21 (Amendments) - <i>Net Investment in a</i>	✓		

		Adopted	Not Adopted	Not Applicable
	<i>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) - <i>Investment Entities</i>			✓
	PAS 27 (Amendments) - <i>Equity Method in Separate Financial Statements</i>	NOT EARLY ADOPTED		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
	PAS 28 (Amendments) - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</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	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	PAS 38 (Amendments) - <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	NOT EARLY ADOPTED		
<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>			✓

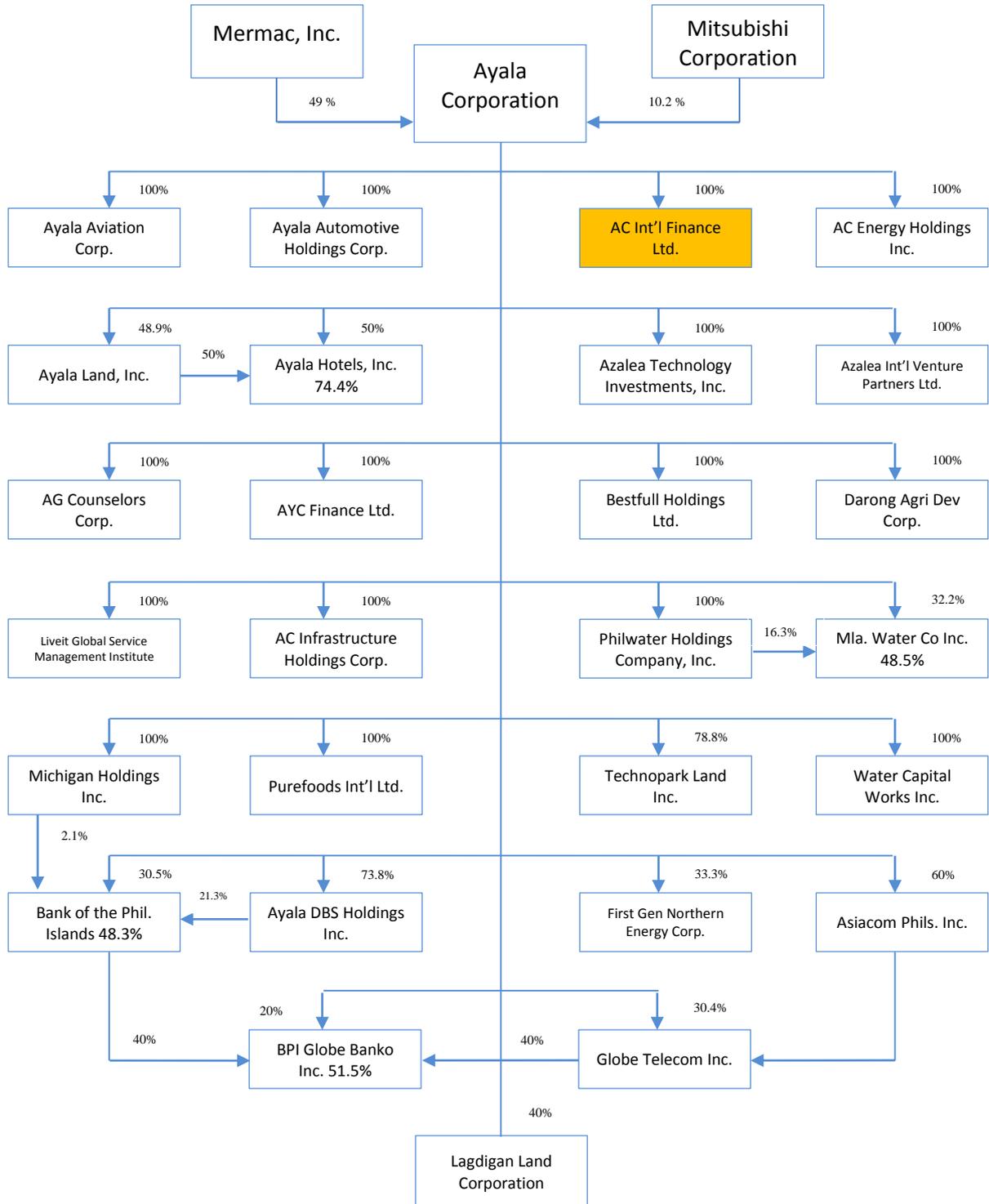
		Adopted	Not Adopted	Not Applicable
	PAS 39 and PFRS 7 (Amendments) - <i>Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	Philippine Interpretation IFRIC 9 and PAS 39 (Amendments) - <i>Embedded Derivatives</i>	✓		
	PAS 39 (Amendments) - <i>Eligible Hedged Items</i>			✓
	PAS 39 (Amendments) - <i>Novation of Derivatives and Continuation of Hedge Accounting</i>			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	PAS 41 (Amendments) - <i>Bearer Plants</i>	NOT EARLY ADOPTED		
<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>	<i>Determining whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<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>SIC 7</b>	Introduction of the Euro			✓

		Adopted	Not Adopted	Not Applicable
<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			✓
<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>	NOT EARLY ADOPTED		
<b>PAS 38</b>	Intangible Assets - <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization</i>	NOT EARLY ADOPTED		
<b>PAS 24</b>	Related Party Disclosures - <i>Key Management Personnel</i>	NOT EARLY ADOPTED		
<b>PFRS 2</b>	Share-based Payment - <i>Definition of Vesting Condition</i>	NOT EARLY ADOPTED		
<b>PFRS 3</b>	Business Combinations - <i>Accounting for Contingent Consideration in a Business Combination</i>	NOT EARLY ADOPTED		
<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>	NOT EARLY ADOPTED		
<b>Annual Improvements to PFRSs (2011-2013 Cycle)</b>				
<b>PAS 40</b>	Investment Property	NOT EARLY ADOPTED		
<b>PFRS 3</b>	Business Combinations - <i>Scope Exceptions for Joint Arrangements</i>	NOT EARLY ADOPTED		
<b>PFRS 13</b>	Fair Value Measurement - <i>Portfolio Exception</i>	NOT EARLY ADOPTED		
<b>Annual Improvements to PFRSs (2012-2014 Cycle)</b>				
<b>PAS 19</b>	Employee Benefits - <i>Regional Market Issue Regarding Discount Rate</i>	NOT EARLY ADOPTED		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations - <i>Changes in Methods of Disposal</i>	NOT EARLY ADOPTED		
<b>PFRS 7</b>	Financial Instruments: Disclosures - <i>Servicing Contracts</i>	NOT EARLY ADOPTED		

<sup>a</sup> The effective date of this interpretation was deferred until the final Revenue standard is issued.

## INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

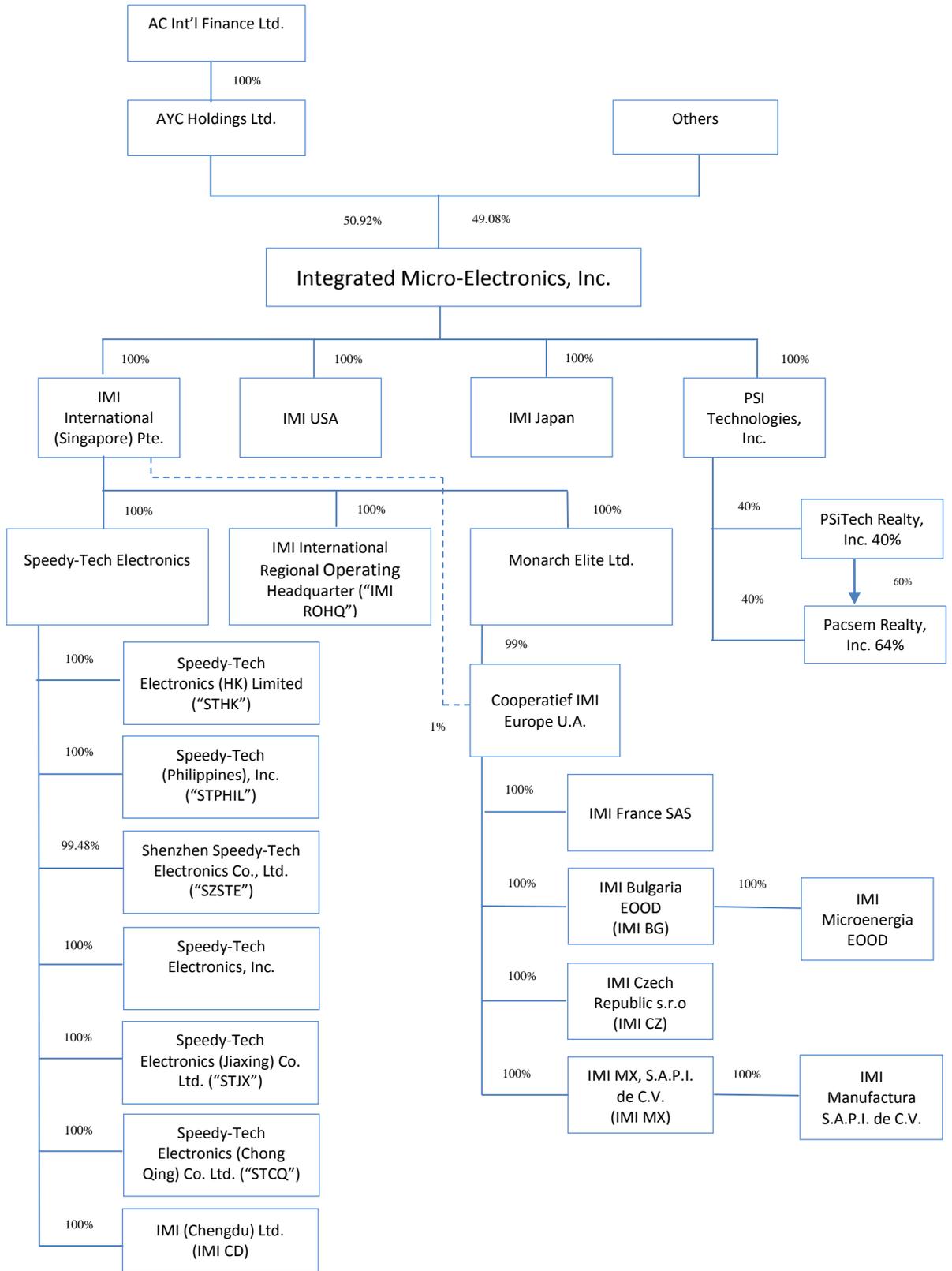
### MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



**Legend:**

% of ownership appearing on top of the box – direct % of ownership

% of ownership appearing inside the box – effective % of ownership



**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2014 AND 2013**

Ratios	Formula	December 31, 2014	December 31, 2013
(i) Current ratio	Current assets / Current Liabilities	1.73	1.53
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	0.41	0.48
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	2.26	2.53
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	13.43	5.69
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	11.1%	9.1%
Net profit margin	Net Income after Tax / Revenues	3.4%	1.4%
EBITDA margin	EBITDA / Revenues	6.3%	4.9%
Return on assets	Net Income after Tax / Total Asset	5.3%	2.1%
Return on equity	Net Income after Tax / Average equity attributable to parent	13.3%	5.4%

(in US\$)

**December 31, 2014**    **December 31, 2013**

Current Assets	416,008,749	338,262,918
Current Liabilities	240,633,994	221,301,986
Total Assets	552,707,407	488,228,816
Bank Debts	99,750,843	93,364,784
Equity attributable to parent	244,051,201	192,649,772
Average equity attributable to parent	218,350,487	193,233,532
Revenues	844,474,069	745,031,863
Gross Profit	93,933,005	67,928,900
Net Income after Tax	29,117,024	10,472,995
Earnings before interest and taxes	37,809,823	16,384,683
Interest expense	2,814,803	2,879,941
EBITDA	52,882,215	36,439,704

Integrated Microelectronics, Inc. and Subsidiaries  
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements  
December 31, 2014  
(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	2,968,599	12,651			2,981,250		2,981,250
IMI International (Singapore) Pte Ltd.	-		-				-
Monarch and EPIQ Subsidiaries	9,735	38,885			48,620		48,620
PSi Technologies Inc.	17,353		(13,660)		3,693		3,693
IMI USA	-	-	-		-		-
<b>Accounts receivable -nontrade</b>							
STEL Group	21,235,481		(5,793,389)		15,442,092		15,442,092
Monarch and EPIQ Subsidiaries	927,712		(141,093)		786,619		786,619
PSi Technologies Inc.	11,302,576	1,513,901			12,816,477		12,816,477
IMI International (Singapore) Pte Ltd.	200,000		-		200,000		200,000
IMI Japan	979,526	1,857			981,384		981,384
IMI USA	405	3,333			3,738		3,738
IMI International ROHQ	7,936	93,249			101,185		101,185
<b>Due From</b>							
STEL Group	-	192,213			192,213		192,213
Monarch and EPIQ Subsidiaries	13,768,358	92,011			13,860,369		13,860,369
IMI International (Singapore) Pte Ltd.			810,247		810,247		810,247
IMI Japan	-		-		-		-
IMI USA	250,000	-	-		250,000		250,000
IMI International ROHQ	245,386		(26,648)		218,739		218,739
<b>Total</b>	<b>51,913,068</b>	<b>1,948,100</b>	<b>(5,164,543)</b>	<b>-</b>	<b>48,696,625</b>	<b>-</b>	<b>48,696,625</b>

These related party receivables are collectible on demand.

**Integrated Micro-Electronics, Inc. and Subsidiaries**  
**Schedule F. Indebtedness to Related Parties**  
**December 31, 2014**  
*(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 (STEL) Group	128,952	477,566
IMI USA	135,939	-
Monarch and EPIQ Subsidiaries	-	360
<b>Accounts Payable - Nontrade</b>		
Speedy-Tech Electronics Ltd.	6,682,487	6,111,841
IMI USA	104,985	44,694
IMI Japan	130,345	
IMI International ROHQ	435,266	364,523
PSi Technologies Inc.	-	296
<b>Due To</b>		
Speedy-Tech Electronics Ltd.	1,578,749	969,472
Monarch and EPIQ Subsidiaries	-	-
PSi Technologies Inc.	546,135	-
IMI International (Singapore) Pte Ltd.	-	-
IMI Japan	582,224	585,890
IMI USA	48,222	159,712
IMI International ROHQ	776,974	535,231
<b>Total</b>	<b>11,150,278</b>	<b>9,249,586</b>

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