

# COVER SHEET

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I	N	C	.																									

(Company's Full Name)

N	O	R	T	H		S	C	I	E	N	C	E		A	V	E	.	,		L	A	G	U	N	A		
T	E	C	H	N	O	P	A	R	K	,		B	I	N	A	N	,			L	A	G	U	N	A		

(Business Address: No. Street City / Town / Province)

<b>ATTY. SOLOMON M. HERMOSURA</b>
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Contact Person

<b>908-3346</b>
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Company Telephone Number

1	2
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3	1
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Month

Day

Fiscal Year

**SEC FORM 17 - Q**

FORM TYPE

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Month

Day

Annual Meeting



Secondary License Type, if Applicable

C	F	D
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Dept. Requiring this Doc.



Amended Articles Number/Section

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Total No. Of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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File Number

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**SEC Number:** 94419  
**File Number:** \_\_\_\_\_

**INTEGRATED MICRO-ELECTRONICS, INC.**

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(Company's Full Name)

North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Biñan, Laguna

---

(Company Address)

(632) 756-6840

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(Telephone Number)

September 30, 2015

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **September 30, 2015**
2. Commission Identification No.: **94419**
3. BIR Tax Identification No.: **000-409-747-000**
4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: **North Science Avenue, Laguna Technopark-Special Processing Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna**  
Postal Code: **4024**
8. Issuer's telephone number, including area code: **(632) 756-6840**
9. Former name, former address and former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,856,899,921

\* Net of 15,892,124 treasury shares;

11. Are any or all of the securities listed on a Stock Exchange? Yes [  ] No [  ]  
  
1,565,636,697 common shares are listed with the Philippine Stock Exchange, including 15,892,124 treasury shares as of September 30, 2015.
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports): Yes [  ] No [  ]
  - (b) has been subject to such filing requirements for the past ninety (90) days: Yes [  ] No [  ]

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**

**UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET**

**AS OF SEPTEMBER 30, 2015**

**(With Comparative Audited Figures as of December 31, 2014)**

**(In thousand dollars)**

	(Unaudited) Sept 30, 2015	(Audited) Dec 31, 2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$98,672	\$117,626
Receivables - net (Note 5)	189,964	195,122
Inventories (Note 6)	90,831	91,389
Other current assets (Note 7)	11,030	11,872
Total Current Assets	390,497	416,009
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 8)	89,615	81,688
Goodwill	46,876	46,876
Intangible assets (Note 9)	2,868	4,003
Available-for-sale financial assets (Note 10)	547	522
Deferred tax assets	1,689	1,731
Other noncurrent assets	1,714	1,878
Total Noncurrent Assets	143,309	136,698
	\$533,806	\$552,707
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 11)	\$170,524	\$182,087
Trust receipts and loans payable (Note 12)	44,490	52,094
Current portion of long-term debt (Note 13)	3,033	2,801
Income tax payable	4,018	3,652
Total Current Liabilities	222,065	240,634
<b>Noncurrent Liabilities</b>		
Noncurrent portion of:		
Long-term debt (Note 13)	75,216	57,299
Obligation under finance lease	-	2,258
Deferred revenue	1,425	1,443
Net retirement liabilities	4,994	4,711
Deferred tax liabilities	1,208	1,434
Accrued rent	520	481
Other noncurrent liabilities	170	182
Total Noncurrent Liabilities	83,533	67,808
Total Liabilities	305,598	308,442

(Forward)

	(Unaudited) Sept 30, 2015	(Audited) Dec 31, 2014
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Parent Company</b>		
Capital stock - common	\$34,880	\$34,877
Capital stock - preferred	–	26,601
Subscribed capital stock	1,755	1,798
Additional paid-in capital	79,556	80,481
Subscriptions receivable	(12,153)	(12,907)
Retained earnings:		
Appropriated for expansion	–	20,661
Unappropriated	144,296	109,481
Treasury stock	(1,013)	(1,013)
Reserve for fluctuation on available-for-sale financial assets	226	184
Cumulative translation adjustment	(14,134)	(10,709)
Other comprehensive loss	(5,574)	(5,574)
Other reserves	171	171
	<b>228,010</b>	<b>244,051</b>
<b>Equity attributable to non-controlling interests in consolidated subsidiaries</b>	<b>197</b>	<b>214</b>
Total Equity	<b>228,207</b>	<b>244,265</b>
	<b>\$533,806</b>	<b>\$552,707</b>

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**  
(In thousand dollars, except Earnings per Share)

	Unaudited 2015		Unaudited 2014	
	Jul to Sept	Jan to Sept	Jul to Sept	Jan to Sept
<b>REVENUES FROM SALES AND SERVICES</b>	<b>\$205,132</b>	<b>\$621,479</b>	\$219,090	\$650,061
<b>COST OF GOODS SOLD AND SERVICES</b>	<b>179,184</b>	<b>549,658</b>	192,802	575,185
<b>GROSS PROFIT</b>	<b>25,948</b>	<b>71,821</b>	26,288	74,876
<b>OPERATING EXPENSES</b>	<b>(15,702)</b>	<b>(44,180)</b>	(12,238)	(45,787)
<b>OTHERS - Net</b>				
Interest expense and bank charges	(624)	(1,910)	(726)	(2,161)
Interest income	249	565	39	168
Foreign exchange gains (losses)	(1,515)	(1,591)	1,090	(39)
Gains on insurance claim	-	-	-	306
Rental income	122	361	311	982
Miscellaneous (Notes 5 and 6)	(194)	1,253	(3,480)	(1,671)
<b>INCOME BEFORE INCOME TAX</b>	<b>8,284</b>	<b>26,319</b>	11,284	26,674
<b>PROVISION FOR INCOME TAX</b>	<b>(1,462)</b>	<b>(4,315)</b>	(1,499)	(5,718)
<b>NET INCOME</b>	<b>\$6,822</b>	<b>\$22,004</b>	\$9,785	\$20,956
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	\$6,828	\$22,021	\$9,730	\$21,012
Non-controlling interests	(5)	(17)	55	(56)
	<b>\$6,823</b>	<b>\$22,004</b>	\$9,785	\$20,956
<b>Earnings Per Share:</b>				
Basic and Diluted (Note 15)		<b>\$0.012</b>		\$0.013

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousand dollars)**

	Unaudited 2015		Unaudited 2014	
	Jul to Sept	Jan to Sept	Jul to Sept	Jan to Sept
<b>NET INCOME FOR THE PERIOD</b>	<b>\$6,823</b>	<b>\$22,004</b>	<b>\$9,785</b>	<b>\$20,956</b>
<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	<b>887</b>	<b>(3,425)</b>	(2,083)	(3,189)
Fair value changes on available-for-sale financial assets	<b>(7)</b>	<b>42</b>	(14)	(31)
	<b>880</b>	<b>(3,383)</b>	(2,097)	(3,220)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gains on defined benefit plans	–	–	1,190	1,190
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$7,703</b>	<b>\$18,621</b>	<b>\$8,878</b>	<b>\$18,926</b>
<b>Total Comprehensive Income (Loss) Attributable to:</b>				
Equity holders of the Parent Company	<b>\$7,708</b>	<b>\$18,638</b>	\$8,823	\$18,982
Non-controlling interests	<b>(5)</b>	<b>(17)</b>	55	(56)
	<b>\$7,703</b>	<b>\$18,621</b>	<b>\$8,878</b>	<b>\$18,926</b>

# INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 AND YEAR ENDED DECEMBER 2014

(in thousand dollars)

Attributable to Equity Holders of the Parent Company														
	Capital Stock - Common	Capital Stock - Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustments	Other Comprehensive Loss	Other Reserves	Attributable to Non- controlling Interest	Total
Balances at January 1, 2015	\$34,877	\$26,601	\$1,798	\$80,481	(12,907)	\$20,661	\$109,481	(\$1,013)	\$184	(\$10,709)	(\$5,574)	\$171	\$214	\$244,265
Issued shares during the period	3	-	(3)	-	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	1,240	-	-	-	-	-	-	-	-	-	1,240
Collections on subscriptions	-	-	-	-	384	-	-	-	-	-	-	-	-	384
Forfeitures of subscriptions	-	-	(40)	(330)	370	-	-	-	-	-	-	-	-	-
Reversal of appropriation	-	-	-	-	-	(20,661)	20,661	-	-	-	-	-	-	-
Cash dividends (Note 14)	-	-	-	-	-	-	(7,868)	-	-	-	-	-	-	(7,868)
Redemption of Preferred Shares	-	(26,601)	-	(1,835)	-	-	-	-	-	-	-	-	-	(28,436)
	34,880	-	1,755	79,556	(12,153)	-	122,274	(1,013)	184	(10,709)	(5,574)	171	214	\$209,585
Net income (loss)	-	-	-	-	-	-	22,022	-	-	-	-	-	(17)	22,005
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	42	(3,425)	-	-	-	(3,383)
Total comprehensive income (loss)	-	-	-	-	-	-	22,022	-	42	(3,425)	-	-	(17)	18,622
Balances at September 30, 2015	\$34,880	\$-	\$1,755	\$79,556	(\$12,153)	\$-	\$144,296	(\$1,013)	\$226	(\$14,134)	(\$5,574)	\$171	\$197	\$228,207

Attributable to Equity Holders of the Parent Company														
	Capital Stock - Common	Capital Stock - Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustments	Other Comprehensive Loss	Other Reserves	Attributable to Non- controlling Interest	Total
Balances at January 1, 2014	\$30,017	\$26,601	\$1,230	\$51,264	(\$9,591)	\$20,661	\$83,503	(\$1,013)	\$190	(\$1,425)	(\$8,958)	\$171	(\$2,604)	\$190,046
Issued shares during the period	28	-	(28)	-	-	-	-	-	-	-	-	-	-	-
Refund of subscriptions	-	-	-	-	29	-	-	-	-	-	-	-	-	29
Accretion of subscriptions	-	-	-	15	(15)	-	-	-	-	-	-	-	-	-
Forfeitures of subscriptions	-	-	(43)	-	43	-	-	-	-	-	-	-	-	-
Cash dividends (Note 14)	-	-	-	-	-	-	(2,288)	-	-	-	-	-	-	(2,288)
	30,045	26,601	1,159	51,279	(9,534)	20,661	81,215	(1,013)	190	(1,425)	(8,958)	171	(2,604)	187,787
Net income (loss)	-	-	-	-	-	-	21,012	-	-	-	-	-	(56)	20,956
Other comprehensive loss	-	-	-	-	-	-	-	-	(31)	(3,189)	1,190	-	-	(2,030)
Total comprehensive income (loss)	-	-	-	-	-	-	21,012	-	(31)	(3,189)	1,190	-	(56)	18,926
Balances at September 30, 2014	\$30,045	\$26,601	\$1,159	\$51,279	(\$9,534)	\$20,661	\$102,227	(\$1,013)	\$159	(\$4,614)	(\$7,768)	\$171	(\$2,660)	\$206,713

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



**Attributable to Equity Holders of the Parent Company**

	Capital Stock- Common	Capital Stock - Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available- for-Sale Financial Assets	Cumulative Translation Adjustments	Other Comprehensive Loss	Other Reserves	Attributable to Non- controlling Interest	Total
Balances at January 1, 2014	\$30,017	\$26,601	\$1,230	\$51,264	(\$9,591)	\$20,661	\$83,503	(\$1,013)	\$190	(\$1,425)	(\$8,958)	\$171	(\$2,604)	\$190,046
Issued shares during the period	4,860	—	(71)	31,132	—	—	—	—	—	—	—	—	—	35,921
Subscriptions during the year	—	—	709	3,479	(4,188)	—	—	—	—	—	—	—	—	—
Transaction costs on share issuance	—	—	—	(1,503)	—	—	—	—	—	—	—	—	—	(1,503)
Cost of share-based payments	—	—	—	165	—	—	—	—	—	—	—	—	—	165
Collections on subscriptions	—	—	—	—	328	—	—	—	—	—	—	—	—	328
Accretion of subscriptions	—	—	—	79	(79)	—	—	—	—	—	—	—	—	—
Forfeitures of subscriptions	—	—	(70)	(552)	622	—	—	—	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	(3,583)	—	—	—	—	—	—	—	—	2,944	(639)
Cash dividends (Note 14)	—	—	—	—	—	—	(3,139)	—	—	—	—	—	—	(3,139)
	\$34,877	26,601	\$1,798	\$80,481	(\$12,907)	20,661	\$80,364	(1,013)	190	(1,425)	(8,958)	171	340	221,179
Net income (loss)	—	—	—	—	—	—	29,117	—	—	—	—	—	(126)	28,991
Other comprehensive loss	—	—	—	—	—	—	—	—	(6)	(9,284)	3,385	—	—	(5,905)
Total comprehensive income (loss)	—	—	—	—	—	—	29,117	—	(6)	(9,284)	3,385	—	(126)	23,086
Balances at December 31, 2014	\$34,877	\$26,601	\$1,798	\$80,481	(\$12,907)	\$20,661	\$109,481	(\$1,013)	\$184	(10,709)	(\$5,573)	\$171	214	\$244,265

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**  
(In thousand dollars)

	Unaudited	
	Sept 30, 2015	Sept 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$26,319	\$26,674
Adjustments for:		
Depreciation of property, plant and equipment (Note 8)	15,874	15,676
Interest expense	1,910	2,161
Amortization of intangible assets (Note 9)	1,636	1,467
Cost of share-based payments	1,240	—
Net retirement expense	1,315	1,450
Interest income	(565)	(168)
Unrealized foreign exchange losses - net	(367)	360
Provision for impairment loss on available-for-sale financial assets (Note 11)	—	1,754
Amortization of deferred revenue	(235)	(198)
Reversal of decline in inventories	100	—
Write-off of available-for-sale financial assets	—	1,350
Provisions for doubtful accounts (Note 5)	317	(1,586)
Provision for inventory obsolescence (Note 6)	1,248	1,796
Gains on sale of property, plant and equipment (Note 8)	(45)	(67)
Gain on insurance claims	—	(306)
Gains on derivative transactions	—	30
Operating income before working capital changes	<b>\$48,747</b>	50,393
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	(747)	(15,518)
Inventories	(1,359)	(9,311)
Other current assets	841	2,957
Increase (decrease) in:		
Accounts payable and accrued expenses	(7,391)	14,088
Retirement liabilities and other long-term benefits	(12)	(236)
Accrued rent	39	22
Net cash generated from operations	<b>40,117</b>	42,395
Interest received	565	260
Interest paid	(2,000)	(2,319)
Income tax paid	(3,872)	(4,139)
Net cash provided by operating activities	<b>34,810</b>	36,197

**Unaudited**  
**Sept 30, 2015**      Sept 30, 2014

**CASH FLOWS FROM INVESTING ACTIVITIES**

Acquisition of:		
Property, plant and equipment (Note 8)	<b>(\$25,791)</b>	(\$16,902)
Intangible assets (Note 9)	<b>(527)</b>	(791)
Proceeds from sale of property, plant and equipment	<b>344</b>	897
Decrease in other noncurrent assets	<b>164</b>	591
<b>Net cash used in investing activities</b>	<b>(25,810)</b>	(16,205)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Availment of loans	<b>44,270</b>	15,990
Payment of loans	<b>(32,063)</b>	(11,091)
Dividends paid to equity holders of the Parent Company	<b>(8,578)</b>	(2,830)
Decrease in obligations under finance lease	<b>(2,257)</b>	(403)
Benefits paid	<b>(995)</b>	(288)
Redemption of preferred shares	<b>(28,436)</b>	-
Collections of subscriptions receivable	<b>384</b>	29
Acquisition of treasury shares	<b>-</b>	(1)
<b>Net cash provided by (used in) financing activities</b>	<b>(27,675)</b>	1,406

**NET FOREIGN EXCHANGE DIFFERENCE IN CASH  
AND CASH EQUIVALENTS**

**(278)**      (554)

**NET INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS**

**(18,954)**      20,844

**CASH AND CASH EQUIVALENTS AT JANUARY 1**

**117,625**      49,042

**CASH AND CASH EQUIVALENTS AT SEPTEMBER 30**

**\$98,672**      \$69,886

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

# INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Financial Statement Preparation

The accompanying unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2015 have been prepared in accordance with the Philippine Accounting Standard (PAS) 34 (Amended), *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2014 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2014.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited interim condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited interim condensed consolidated financial statements include the accounts of Integrated Micro-Electronics, Inc. (herein referred to as the "Parent Company") and its subsidiaries collectively referred to as the "Group".

The unaudited interim condensed consolidated financial statements are presented in United States (U.S.) Dollar (\$), and all values are rounded to the nearest thousands except when otherwise indicated.

The accompanying unaudited interim condensed consolidated financial statements were approved and authorized for release by the Audit Committee on November 5, 2015.

### 2. Basis of Consolidation

#### 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
	2015	2014		
IMI International (Singapore) Pte. Ltd.	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI International ROHQ (IMI ROHQ)	100.00%	100.00%	Philippines	USD
STEL	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD) <sup>a</sup>	100.00%	100.00%	China	Renminbi (RMB)
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ) <sup>b</sup>	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	100.00%	100.00%	China	USD
STPH <sup>c</sup>	100.00%	100.00%	Philippines	USD
Speedy-Tech Electronics, Inc.	100.00%	100.00%	USA	USD
Monarch Elite Ltd. (Monarch)	100.00%	100.00%	Hong Kong	USD
Cooperatief IMI Europe U.A. <sup>d</sup> (Cooperatief)	100.00%	100.00%	Netherlands	Euro (EUR)
Integrated Micro-Electronics Bulgaria EOOD (IMI BG)	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)

Subsidiary	Percentage of Ownership		Country of Incorporation	Functional Currency
	2015	2014		
Microenergia EOOD (Microenergia) <sup>e</sup>	100.00%	100.00%	Bulgaria	BGN
(Forward)				
Integrated Micro-Electronics Czech Republic s.r.o. (IMI CZ)	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. <sup>f</sup> (IMI MX)	100.00%	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	100.00%	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	100.00%	100.00%	France	EUR
IMI USA	100.00%	100.00%	USA	USD
IMI Japan	100.00%	100.00%	Japan	USD
PSi Technologies Inc. (PSi)	100.00%	83.25%	Philippines	USD
PSiTech Realty <sup>g</sup>	40.00%	40.00%	Philippines	USD
Pacsem Realty <sup>g</sup>	64.00%	64.00%	Philippines	USD

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

<sup>b</sup> On June 30, 2014, STEL'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.

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.

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### 3. 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, 2015. Except when otherwise indicated, these standards and interpretation have no impact on the Group's financial position, financial performance and/or disclosures:

- 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.

#### 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 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 June 30, 2015 and December 31, 2014 consist of loans and receivables, AFS financial assets and other financial liabilities.

##### *Date of recognition of financial instruments*

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

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

#### *Financial assets or financial liabilities at FVPL*

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

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 non-hedge derivatives.

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

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

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

#### *Loans and receivables*

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

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

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

This accounting policy relates primarily to the Group's cash and cash equivalents, receivables and miscellaneous deposits.

#### *AFS financial assets*

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

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

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

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

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

#### *Other financial liabilities*

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

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

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

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits, 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 18.

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:

	<u>Years</u>
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.

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

##### *Additional paid-in capital*

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock and cost of share-based payments over the holding period.

##### *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 16.

#### 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.

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. Cash and Cash Equivalents**

This account consists of:

	<b>Sept 30, 2015</b>	Dec 31, 2014
	<b>(Unaudited)</b>	(Audited)
	(In thousands)	
Cash on hand	<b>\$355</b>	\$82
Cash in banks	<b>77,062</b>	63,504
Short-term investments	<b>21,255</b>	54,040
	<b>\$98,672</b>	\$117,626

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. Balance after application of the intended use of the proceeds amounted to \$7.6 million as of September 30, 2015.

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## 5. Loans and Receivables

This account consists of:

	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Trade	\$184,765	\$192,038
Nontrade	2,410	1,598
Receivable from insurance	1,148	1,066
Receivables from employees	1,117	589
Due from related parties (Note 14)	216	181
Others	2,447	1,826
	<b>192,103</b>	197,298
Less allowance for doubtful accounts	2,139	2,176
	<b>\$189,964</b>	\$195,122

### *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.

### *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*

Insurance for damages to inventories caused by typhoon in August 2013 was claimed by the Parent Company in May 2014 amounting to \$0.41 million. Gain on insurance claims recognized under "Miscellaneous income - net" account in the unaudited interim consolidated statements of income amounted to \$0.31 million.

Insurance 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 \$2.14 million and \$2.18 million as of September 30, 2015 and December 31, 2014, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts

Provisions for doubtful accounts recognized for the nine-month period ended September 30, 2015 and 2014 amounted to \$0.32 million and (\$1.59 million), respectively. Provisions during the year form part of "Operating Expenses" account.

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## 6. Inventories

Provision for inventory obsolescence recognized for the nine-month period ended September 30, 2015 and 2014 amounted to \$1.25 million and \$1.80 million, respectively.

The Parent Company claimed insurance amounting to \$0.43 million for the damaged inventories caused by a typhoon in August 2013. 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 "Miscellaneous income - net" account in the unaudited interim consolidated statements of income.

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## 7. Other Current Assets

This account consists of:

	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Tax credits	\$5,597	\$7,123
Prepayments	3,351	2,861
Advances to suppliers	1,210	750
Input taxes	828	1,137
Others	44	1
	<u>\$11,030</u>	<u>\$11,872</u>

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.

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## 8. Property, Plant and Equipment

### September 30, 2015 (Unaudited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2015	\$67,855	\$107,813	\$17,072	\$1,348	\$4,033	\$3,167	\$201,288
Additions	4,500	13,200	1,233	280	1,829	4,749	25,791
Disposals	(143)	(9,606)	(547)	(75)	(77)	(16)	(10,464)
Transfers	66	2,295	9	12	-	(2,382)	-
Foreign currency exchange difference	(666)	(2,983)	(181)	(51)	-	(243)	(4,124)
At September 30, 2015	<u>71,612</u>	<u>110,719</u>	<u>17,586</u>	<u>1,515</u>	<u>5,785</u>	<u>5,275</u>	<u>212,491</u>
<b>Accumulated depreciation</b>							
At January 1, 2015	36,259	65,122	12,866	296	3,325	-	117,868
Depreciation	2,708	11,602	1,142	360	62	-	15,874
Disposals	(141)	(9,340)	(520)	(86)	(77)	-	(10,164)
Foreign currency exchange difference	(199)	(2,069)	(129)	(37)	-	-	(2,434)
At September 30, 2015	<u>38,627</u>	<u>65,315</u>	<u>13,359</u>	<u>533</u>	<u>3,310</u>	<u>-</u>	<u>121,144</u>
Accumulated impairment loss	737	983	12	-	-	-	1,732
Net book value as of							
September 30, 2015	<u>32,248</u>	<u>44,421</u>	<u>4,215</u>	<u>982</u>	<u>2,475</u>	<u>5,275</u>	<u>89,615</u>

December 31, 2014 (Audited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2014	\$70,115	\$114,86	\$15,957	\$1,02	\$3,91	\$1,172	\$207,047
Additions	3,028	14,190	1,566	743	398	5,020	24,945
Disposals	(4,671)	(17,213)	(310)	(328)	(248)	(147)	(22,917)
Retirement	(37)	(355)	(6)	–	(34)	–	(432)
Transfers	648	1,762	154	–	2	(2,566)	–
Foreign currency exchange difference	(1,228)	(5,436)	(289)	(90)	–	(312)	(7,355)
At December 31, 2014	67,855	107,813	17,072	1,348	4,033	3,167	201,288
<b>Accumulated depreciation</b>							
At January 1, 2014	35,008	69,125	12,182	325	3,021	–	119,661
Depreciation	3,555	15,255	1,196	356	498	–	20,860
Disposals	(2,055)	(15,524)	(287)	(320)	(176)	–	(18,362)
Retirement	(25)	(252)	(6)	–	(18)	–	(301)
Foreign currency exchange difference	(224)	(3,482)	(219)	(65)	–	–	(3,990)
At December 31, 2014	36,259	65,122	12,866	296	3,325	–	117,868
<b>Accumulated impairment loss</b>							
Balances at January and December 31, 2014	737	983	12	–	–	–	1,732
<b>Net book value as of December 31, 2014</b>	<b>\$30,859</b>	<b>\$41,708</b>	<b>\$4,194</b>	<b>\$1,052</b>	<b>\$708</b>	<b>\$3,167</b>	<b>\$81,688</b>

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

	Sept 30, 2015 (Unaudited)	Sept 30, 2014 (Unaudited)
	(In thousands)	
Cost of goods sold and services	\$13,973	\$13,692
Operating expenses	1,901	1,984
	<b>\$15,874</b>	<b>\$15,676</b>

The Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments for the nine-month period ended September 30, 2015 and 2014 amounting to \$45 thousand and \$10 thousand, respectively.

As of September 30, 2015 and December 31, 2014, IMI BG’s pledged building with BNP Paribas amounted to \$1.57 million and \$1.55 million, respectively. (see Note 13).

On July 21, 2015, IMI BG has executed a transfer of property from Melexis Bulgaria EOOD (MB). The transaction involved IMI BG’s acquisition of a parcel of land and the building situated in Botevgrad, Bulgaria for €1.14 million. The property has a total land area of 16.275 square meters (sqm.) and a total build-up area of 12,193 sqm. A portion of the property was previously leased by IMI BG from MB as part of its production facilities and a portion being leased to a third party.

**9. Intangible Assets**

During the nine months ended September 30, 2015 and 2014, the Group incurred \$0.53 million and \$0.79 million, respectively, for the cost of additional computer software.

Amortization of intangible assets for the nine months ended September 30, 2015 and 2014 amounted to \$1.64 million and \$1.47 million, respectively.

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## 10. Available-for-Sale (AFS) Financial Assets

This account consists of:

	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Investment securities	\$1,754	\$1,754
Club shares	547	522
	<b>\$2,301</b>	2,276
Less allowance for impairment on AFS financial assets	1,754	1,754
	<b>\$547</b>	\$522

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

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## 11. Accounts Payable and Accrued Expenses

	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Trade payables	\$118,781	\$119,390
Accrued compensation and benefits	22,586	24,692
Accrued expenses	21,012	25,222
Nontrade payables	3,865	6,348
Advances from customers	688	519
Employee-related contributions	614	645
Taxes payable	524	1,502
Accrued interest payable	359	449
Deferred revenue - current	311	299
Customers' deposits	276	305
Dividends payable	189	899
Due to related parties (Note 17)	14	34
Obligation under finance lease - current	-	853
Others	1,305	930
	<b>\$170,524</b>	\$182,087

### 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, professional fees, utilities, selling expenses 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.

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## 12. Trust Receipts and Loans Payable

	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Parent Company	\$27,000	\$29,000
PSi	9,490	9,594
STEL	8,000	13,500
	<b>\$44,490</b>	<b>\$52,094</b>

### Parent Company

As of September 30, 2015 and December 31, 2014, the Parent Company has short-term loans aggregating to \$27.00 million and \$29.00 million, respectively. The loans have maturities ranging from 30-60 days and fixed interest rates ranging from 1.03% to 1.82% in 2015 and 1.75% to 2.20% in 2014.

### PSi

PSi has short-term loan to Metropolitan Bank & Trust Co. (MBTC) amounting to \$9.20 million and trust receipts payable amounting to \$0.29 million and \$0.39 million as of September 30, 2015 and December 31, 2014, 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 2.03% to 2.82% in 2015 and 2.23% to 2.53% in 2014. This credit facility is renewable annually, and the current term is until May 30, 2015.

### STEL

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

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## 13. Long-Term Debt

	Sep 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
	(In thousands)	
Parent Company	\$65,615	\$46,092
Cooperatief	9,241	12,443
IMI BG	730	975
IMI CZ	2,663	590
	<b>\$78,249</b>	<b>60,100</b>
Less current portion:		
Cooperatief	2,241	2,428
IMI BG	225	244
IMI CZ	567	129
	<b>3,033</b>	<b>2,801</b>
Noncurrent portion	<b>\$75,216</b>	<b>\$57,299</b>

#### 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 (\$5.57 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.

On August 12, 2015, the Parent Company obtained a \$20.0 million five-year term loan from a local bank payable as the end of the loan term subject to a fixed interest rate per annum equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. Interests are payable quarterly in arrears on each Interest Payment date.

#### Cooperatief

The purchase consideration for the acquisition of IMI EU/MX Subsidiaries in 2011 includes the deferred payment aggregating to €14.25 million (\$20.40 million) relating to the acquisition of EPIQ NV's shares and purchased receivables of EPIQ NV from IMI EU/MX Subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

Cooperatief had already paid €2.00 million (\$2.19 million) in 2015, €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>
	(In thousands)	
2016	€2,000	\$2,241
2017	2,000	2,241
2018	4,249	4,759
	<u>€8,249</u>	<u>\$9,241</u>

The 2015 amortization amounting to €2.00 million (\$2.19 million) was paid in July 2015.

#### 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 credit facility with BNP Paribas is subject to the following collateral: Security of Transfer of Ownership Title relating to building with a carrying value of \$1.51 million and \$1.55 million as of June 30, 2015 and December 31, 2014, respectively.

#### 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 and a new loan avallment which matures on August 1, 2020.

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#### 14. Equity

On June 25, 2015, the Board of Directors (BOD) of the Parent Company approved the redemption of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares will be redeemed at a price of P1.00 per share. The redemption price and all accumulated unpaid cash dividends were paid on August 24, 2015 to the stockholders of record as of July 24, 2015.

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 (P0.1868) per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

On February 17, 2014, the Board of Directors of the Parent Company approved the declaration of cash dividend of \$0.00140 or P0.06319 per share to all outstanding common shares as of record date March 3, 2014 payable on March 19, 2014.

On August 5, 2015, the Executive Committee of the Parent Company approved the grant to our qualified executives, pursuant to our Employee Stock Ownership Plan, of stock options covering up to 26,265,000 common shares at a subscription price of Php 5.11 per share equivalent to the average closing price of our common shares at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. The grant of stock option was recommended by our Compensation Committee pursuant to the year. Total subscribed shares determined on October 5, 2015 is 10,393,394.

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#### 15. Earnings per Share

The following table presents information necessary to calculate earnings per share on net income attributable to equity holders of the Parent Company.

	Sept 30, 2015 (Unaudited)	Sept 30, 2014 (Unaudited)
	(In thousands)	
Net income	\$22,021	\$21,012
Less dividends on preferred stock	(630)	(630)
	<u>\$21,391</u>	<u>\$20,382</u>
Weighted average number of common shares outstanding	<u>1,856,900</u>	<u>1,611,830</u>
Basic and diluted	<u>\$0.012</u>	<u>\$0.013</u>

As of September 30, 2015 and 2014, the Parent Company has no dilutive potential common shares.

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#### 16. 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 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 nine-month period ended September 30, 2015 and 2014:

September 30, 2015 (Unaudited)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$168,463	\$34,330	\$214,297	\$204,026	\$348	\$15	\$-	\$621,479
Inter-segment	55	-	4,323	12	2,040	652	(7,082)	-
<b>Total revenue</b>	<b>\$168,518</b>	<b>\$34,330</b>	<b>\$218,620</b>	<b>\$204,038</b>	<b>\$2,388</b>	<b>\$667</b>	<b>(7,082)</b>	<b>\$621,479</b>
Segment interest income	\$872	\$1	\$250	\$-	\$-	\$0	(\$558)	\$565
Segment interest expense	(\$1,043)	(\$435)	(\$142)	(\$846)	(\$1)	(\$1)	\$558	(\$1,910)
Segment profit (loss) before income tax	\$10,667	(\$1,541)	(\$325)	\$19,855	(\$1,693)	(\$644)	\$-	\$26,319
Segment provision for income tax	(1,507)	(44)	(408)	(2,355)	-	\$0	-	(4,315)
Segment profit (loss) after income tax	\$9,160	(\$1,585)	(\$733)	\$17,500	(\$1,693)	(\$644)	\$-	\$22,004
Net income (loss) attributable to the equity holders of the Parent Company	\$9,160	(\$1,585)	(\$716)	\$17,500	(\$1,693)	(\$644)	\$-	\$22,021

September 30, 2014 (Unaudited)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$166,769	\$34,404	\$246,274	\$202,364	\$240	\$10	\$-	\$650,061
Inter-segment	161	-	3,157	214	2,167	721	(6,420)	-
<b>Total revenue</b>	<b>\$166,930</b>	<b>\$34,404</b>	<b>\$249,431</b>	<b>\$202,578</b>	<b>\$2,407</b>	<b>\$731</b>	<b>(6,420)</b>	<b>\$650,061</b>
Segment interest income	\$586	\$2	\$251	\$1	\$-	\$-	(\$672)	\$168
Segment interest expense	(\$1,080)	(\$449)	(\$135)	(\$1,166)	(\$2)	(\$1)	\$672	(\$2,161)
Segment profit (loss) before income tax	\$3,931	(\$855)	\$9,068	\$17,529	(\$2,307)	(\$692)	\$-	\$26,674
Segment provision for income tax	711	92	2,725	2,190	-	-	-	5,718
Segment profit (loss) after income tax	\$3,220	(\$947)	\$6,343	\$15,339	(\$2,307)	(\$692)	\$-	\$20,956
Net income (loss) attributable to the equity holders of the Parent Company	\$3,220	(\$947)	\$6,325	\$15,254	(\$2,307)	(\$692)	\$159	\$21,012

Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

For the nine-month period ended September 30, 2015, the profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to \$7.08 million and intersegment cost of sales and operating expenses amounting to \$0.06 million and \$7.02 million, respectively.

For the nine-month period ended September 30, 2014, the profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to \$6.54 million and intersegment cost of sales and operating expenses amounting to \$0.38 and \$6.04 million, respectively.

The following table presents segment assets of the Group's geographical segments as of September 30, 2015 and December 31, 2014:

Segment assets	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
September 30, 2015 (Unaudited)	\$278,498	\$18,067	\$222,820	\$176,171	\$1,634	\$862	(\$164,246)	\$533,806
December 31, 2014 (Audited)	\$297,117	\$19,379	\$252,990	\$163,223	\$1,437	\$860	(\$182,299)	\$552,707

Segment assets do not include investments in subsidiaries and intersegment receivable amounting to \$125.34 million and \$38.91 million as of September 30, 2015, respectively, and \$124.15 million and \$58.01 million as of December 31, 2014. These are eliminated in consolidation.

Furthermore, goodwill arising from the acquisition of STEL, IMI USA and IMI CZ amounting to \$45.13 million, \$0.66 million and \$0.65 million, respectively, are recognized at consolidated level.

The following table presents revenues from external customers:

	September 30, 2015 (Unaudited)	September 30, 2014 (Unaudited)
	(In thousands)	
Europe	\$322,978	\$313,227
America	156,719	159,310
Japan	42,000	65,944
Asia/Others	99,782	111,580
	<b>\$621,479</b>	<b>\$650,061</b>

Revenues are attributed to countries on the basis of the customer's location. Certain customers independent of each other but within the same group account for 14% of the Group's total revenue for the nine-month period ended September 30, 2015 and 2014, respectively.

The following table presents revenues per product type:

	Sept 30, 2015 (Unaudited)	Sept 30, 2014 (Unaudited)
	(In thousands)	
Automotive	\$262,963	\$241,245
Telecom	113,460	133,082
Industrial	87,924	90,241
Consumer	66,427	78,975
Multiple market	45,755	49,931
Computer peripherals	24,036	38,838
Medical	20,914	17,749
	<b>\$621,479</b>	<b>\$650,061</b>

## 17. 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 six-month period ended June 30, 2015 and 2014, the Group has not recorded any impairment on loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transaction with BPI, an affiliate

As of September 30, 2015 and December 31, 2014, the Group maintains current and savings accounts with BPI amounting \$1.30 million and \$0.97 million, respectively and a Short Term Investment accounts amounting to \$6.5 million as of December 31, 2014.

Total interest income earned from investments with BPI amounted to \$25.1k and \$2.6k for the quarters ended September 30, 2015 and 2014, respectively.

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

	Receivables		Payables	
	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
BPI	\$216	\$178	\$-	\$3
Ayala Corporation (AC)	-	1	-	-
Makati Development Corporation (MDC)	-	1	-	-
Ayala Land, Inc. (ALI)	-	1	-	-
Innove Communication Inc. (ICI)	-	-	-	26
Globe Telecom, Inc. (GTI)	-	-	4	5
	<b>\$216</b>	<b>\$181</b>	<b>\$4</b>	<b>\$34</b>

- 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. 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.
  - iv. 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.
  - v. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.
- c. Outstanding balances of related party transactions within the Group follow:

	Receivables		Payables	
	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
IMI EU/MX Subsidiaries	\$18,095	\$14,695	\$35	\$-
PSi	13,377	12,821	124	-
IMI Singapore	1,010	1,010	-	-
IMI Japan	992	981	547	594
IMI ROHQ	310	320	1,197	1,150
IMI USA	252	254	260	196
STEL	246	18,427	2,395	7,370
	<b>\$34,282</b>	<b>\$48,508</b>	<b>\$4,558</b>	<b>\$9,310</b>

- i. Receivables from STEL, 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, 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 1.25% to 2.67% in 2015 and 2.54% to 3.08% in 2014.

Receivables from IMI ROHQ are nontrade in nature and represent the pension 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 non-trade related transactions which include freight and handling charges, business travel expenses and consideration for the net assets transferred by STPH to the Parent Company. These advances are noninterest-bearing and are payable on demand.
- iii. 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.
- iv. Payable to PSi are trade in nature and pertains to services rendered by PSi in behalf of a Parent Company's customer.
- v. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company and PSi which serves as a supervisory, communications and coordinating center for its affiliates.

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

	Revenue/Income		Expenses	
	Sept 30, 2015 (Unaudited)	Sept 30, 2014 (Unaudited)	Sept 30, 2015 (Unaudited)	Sept 30, 2014 (Unaudited)
Manila Water Asia Pacific (MWAP)	\$-	\$7	\$-	\$-
BPI	23	2	-	-
Technopark Land, Inc (TLI)	-	6	829	839
Ayala Group Legal (AGL)	-	-	71	69
ICI	-	-	57	44
GTI	-	-	64	55
	<b>\$23</b>	<b>\$15</b>	<b>\$1,021</b>	<b>\$1,007</b>

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

- i. Rental income earned by STEL from MWAP from lease of its office premises.
- ii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

- i. Rent expense from the lease contract with TLI.
- 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.

- d. 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. It also includes 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.

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## 18. 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 September 30, 2015 and December 31, 2014:

	Carrying Amounts		Fair Values	
	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)	Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
<b>Financial assets:</b>				
AFS financial assets	\$547	\$522	\$547	\$522
<b>Financial liabilities:</b>				
Noncurrent portion of:				
Long-term debt	75,216	57,299	81,615	64,723
Obligation under finance lease	–	2,258	–	2,274
	<b>\$75,216</b>	<b>\$59,557</b>	<b>\$81,615</b>	<b>\$66,997</b>

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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 methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used in 2015 and 2014 ranged from 1.86% to 2.98%.

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 in 2014 range from 3.18% to 12.26%.

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:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>September 30, 2015 (Unaudited)</b>				
<b>Assets measured at fair value:</b>				
AFS financial assets	\$547	\$-	\$-	\$547
<b>Liabilities for which fair values are disclosed:</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	\$81,615	\$81,615
	\$-	\$-	\$81,615	\$81,615

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2014 (Audited)</b>				
<b>Assets measured at fair value:</b>				
AFS financial assets	\$522	\$-	\$-	\$522
<b>Liabilities for which fair values are disclosed:</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	64,723	\$64,723
Obligation under finance lease	-	-	2,274	2,274
	\$-	\$-	\$66,997	\$66,997

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.

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## 19. 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, loans and 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) as of September 30, 2015 and 2014. There is no other impact on the Group's equity other than those already affecting income.

Increase/Decrease in Basis Points	<b>Effect on Net Income before Tax</b>	
	<b>Sept 30, 2015</b> <b>(Unaudited)</b>	Sept 30, 2014 (Unaudited)
+100	<b>(\$368)</b>	(\$360)
-100	<b>368</b>	360

The following table shows the information about the Group's debt as of September 30, 2015 and 2014 that are exposed to interest rate risk presented by maturity profile:

	<b>Sept 30, 2015</b> <b>(Unaudited)</b>	Sept 30, 2014 (Unaudited)
Within one year	<b>\$792</b>	\$389
One to five years	<b>48,216</b>	47,679
	<b>\$49,008</b>	\$48,068

#### *Liquidity risk*

Liquidity or funding risk is the risk that an entity 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 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 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.

#### *Credit risk*

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and 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 for the components of the consolidated balance sheets as at June 30, 2015 and December 31, 2014 are the carrying amounts of the financial assets. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 38% and 35% of trade receivables relating to three (3) major customers as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015 and December 31, 2014, the aging analysis of trade receivables follows:

	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	
<b>September 30, 2015</b>								
(Unaudited)	\$184,765	\$159,518	\$18,597	\$3,585	\$1,060	\$408	\$484	\$1,113
December 31, 2014								
(Audited)	\$192,038	\$157,600	\$21,280	\$2,092	\$2,209	\$2,005	\$5,832	\$1,020

#### Foreign currency risk

The Group's foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, the Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in 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 to hedge any material exposure where appropriate.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their USD equivalent follows:

#### Philippine Peso (P)

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In PHP	In USD	In PHP
	(in thousands)			
Cash and cash equivalents	\$20,469	P956,922	\$18,288	P817,839
Loans and receivables	1,224	57,226	910	40,717
Miscellaneous deposits	1,313	61,411	1,331	59,504
Accounts payable and accrued expenses	(23,830)	(1,114,081)	(28,796)	(1,287,754)
Pension liabilities	(4,638)	(216,838)	(4,318)	(193,098)
Other noncurrent liabilities	(487)	(22,776)	(434)	(19,434)
Net foreign currency-denominated liabilities	(\$5,949)	(P278,136)	(\$13,019)	(P582,226)

#### Singapore Dollar (SGD)

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In SGD	In USD	In SGD
	(in thousands)			
Cash and cash equivalents	\$2,176	SGD 3,097	\$17,423	SGD 23,045
Loans and receivables	110	157	153	203
Accounts payable and accrued expenses	(1,629)	(2,318)	(3,275)	(4,332)
Other current liabilities	-	-	-	-
Net foreign currency-denominated assets	\$657	SGD 936	\$14,301	SGD 18,916



*Euro (€)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In EUR	In USD	In EUR
	(in thousands)			
Cash and cash equivalents	\$20,172	€17,964	\$10,540	€ 8,651
Loans and receivables	41,762	37,191	45,735	37,540
Accounts payable and accrued expenses	(21,207)	(18,886)	(16,731)	(13,733)
Short-term debt	(792)	(706)	(371)	(299)
Long-term debt	(8,215)	(7,316)	(7,998)	(6,565)
Net foreign currency-denominated assets	\$31,720	€28,247	\$31,175	€25,594

*Japanese Yen (JPY or ¥)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In JPY	In USD	In JPY
	(in thousands)			
Cash and cash equivalents	\$306	¥36,768	\$214	¥ 25,781
Loans and receivables	1,727	207,380	1,460	175,708
Miscellaneous deposits	21	2,492	21	2,491
Accounts payable and accrued expenses	(1,810)	(217,256)	(3,099)	(373,082)
Net foreign currency-denominated liabilities	\$244	¥29,384	(\$1,404)	(¥169,102)

*Renminbi (RMB)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In RMB	In USD	In RMB
	(in thousands)			
Cash and cash equivalents	\$21,610	RMB 137,467	\$23,174	RMB 141,839
Loans and receivables	58,035	369,180	75,142	459,909
Accounts payable and accrued expenses	(34,522)	(219,608)	(43,976)	(269,156)
Net foreign currency-denominated assets	\$45,123	RMB 287,039	\$54,340	RMB332,592

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

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In HKD	In USD	In HKD
	(in thousands)			
Cash and cash equivalents	\$44	HK\$345	\$43	HK\$ 337
Loans and receivables	1,184	9,174	1,177	9,133
Accounts payable and accrued expenses	(219)	(1,701)	(363)	(2,816)
Net foreign currency-denominated assets	\$1,009	HK\$7,818	\$857	HK\$ 6,654

*British Pound (GBP or £)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In GBP	In USD	In GBP
	(in thousands)			
Loans and receivables	\$2	£1	\$63	£ 41
Accounts payable and accrued expenses	(2)	(1)	(2)	(2)
Net foreign currency-denominated assets (Liabilities)	\$-	£-	\$61	£39

*Australian Dollar (AUD)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In AUD	In USD	In AUD
	(in thousands)			
Accounts payable and accrued expenses	<b>(\$68)</b>	<b>(AUD97)</b>	(\$82)	(AUD100)

*Thai Baht (THB)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In THB	In USD	In THB
	(in thousands)			
Loans and receivables	<b>\$1</b>	<b>THB36</b>	\$-	THB-

*Swiss Franc (CHF)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In CHF	In USD	In CHF
	(in thousands)			
Cash and cash equivalents	<b>\$1</b>	<b>CHF 1</b>	\$1	CHF1
Accounts payable and accrued expenses	<b>(4)</b>	<b>(4)</b>	(12)	(12)
Net foreign currency-denominated liabilities	<b>(\$3)</b>	<b>(CHF3)</b>	(\$12)	(CHF12)

*Danish Krone (DKK)*

	Sept 30, 2015 (Unaudited)		Dec 31, 2014 (Audited)	
	In USD	In DKK	In USD	In DKK
	(in thousands)			
Accounts payable and accrued expenses	<b>(\$1)</b>	<b>(DKK1)</b>	(\$1)	(DKK6)

*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 June 30, 2015 and December 31, 2014. 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	
		Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
PHP	+1%	<b>\$39</b>	\$123
	-1%	<b>(39)</b>	(123)
SGD	+1%	<b>(6)</b>	(91)
	-1%	<b>6</b>	91
EUR	+1%	<b>(306)</b>	(199)
	-1%	<b>306</b>	199
JPY	+1%	<b>2</b>	16
	-1%	<b>(2)</b>	(16)
RMB	+1%	<b>(573)</b>	(532)
	-1%	<b>573</b>	532

Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax	
		Sept 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
HKD	+1%	(15)	(9)
	-1%	15	9
GBP	+1%	0	0
	-1%	(0)	(0)
AUD	+1%	1	1
	-1%	(1)	(1)
THB	+1%	(0)	(0)
	-1%	0	0
CHF	+1%	0	0
	-1%	(0)	(0)
DKK	+1%	0	0
	-1%	(0)	(0)

#### *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 during the period ended S 30, 2015 and December 31, 2014.

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 debt. Net debt is equivalent to the total bank borrowings less cash and cash equivalents.

	Sept 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Trust receipts and loans payable	\$44,490	\$52,094
Long-term bank debt	69,008	47,656
Total debt	\$113,498	99,750
Less cash and cash equivalents	98,672	117,625
Net cash (Debt)	(\$14,826)	\$17,875
Equity attributable to equity holders of the Parent Company	228,010	244,051
Debt to equity ratio	0.50:1	0.41:1
Net cash to equity ratio	-0.06:1	0.07:1

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations

	For the Nine months ended 30 September	
	2015	2014
	<i>(in US\$ thousands, except Basic EPS)</i>	
Revenues from Sales and Services	\$621,479	\$650,061
Cost of Goods Sold and Services	549,658	577,223
Gross Profit	71,821	72,838
Net Income Attributable to Equity Holders of the Parent Company	22,021	21,012
EBITDA <sup>i</sup>	43,561	46,193
Basic Earnings per Share (EPS)	\$0.012	\$0.013

#### Revenues from Sales and Services

The company's consolidated revenues for the first nine months of \$621.5 million, decreased slightly by 4 percent year-on-year. Tan said that the drop in revenues can be attributed to "a weak Euro and a downturn in the computing and telecommunications infrastructure segments."

IMI's Europe and Mexico operations benefitted from their robust automotive business and recorded combined revenues of \$204 million for the nine-month period, a 1 percent growth year-on-year. Revenues would have increased by 17 percent if not for the weakening euro.

The EMS operations in the Philippines posted \$168.5 million in revenues for the period, a 1 percent growth from \$166.9 million a year ago, as the growing automotive and industrial businesses offset the decline in demand for storage devices.

IMI's China operations recorded \$214.3 million in revenues for the period, a 13 percent decline year over year as the 4G telecommunications network rollout reaches its projected volume in the country. The revenue drop was also affected by lower orders from a few consumer electronics customers.

#### Cost of Goods Sold and Services

Cost of sales is lower by 4% relative to the 4% decrease in revenues. Although revenues would have been higher ex-FX devaluation of EUR, direct material cost ratio is also higher due to USD purchases. Direct materials ratio increase while direct labor ratio decrease due to soften demand for computing sector which are mostly consignment businesses.

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

## Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US\$71.82 million, lower year-on-year by 4.1% due to contribution margin ratio higher by 56 bps but offset by high fixed overhead ratio due to low utilization.

## Operating Expenses

The Company's operating expenses decreased by US\$1.6 million or 4% mainly due to lower people-related costs and cost saving efforts to cope with the revenue drop.

## Net Income

The company generated US\$22 million net income, \$1 million or 5% higher than last year's US\$21 million despite FX. Operating income down by US\$1.5 million driven by drop in revenue. Interest expense lower than last year by 12% from reduced loan balances while interest income increased.

## EBITDA

EBITDA lower by US\$2.6 million or 6% due to lower operating income +US\$1.5 million, and FX losses in 2015 due to devaluation of RMB and Euro.

## Financial Condition

The Company maintains financial stability with a cash balance of US\$98.7 million as of September 30, 2015. Current ratio and debt-to-equity ratio remains healthy at 1.76:1 and 0.50:1, respectively.

For the nine-month period of 2015, the Company's capital expenditures amounted to US\$25.8 million which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For the full year of 2015, the Company expects to spend \$27.7M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and public offering and a portion to be funded by debt. The Company looks forward to line expansions to cater increased demand in the automotive sector being its target market.

## Key performance Indicators of the Company

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

Performance indicators	As of end	
	Sept 30, 2015	Dec 31, 2014
Liquidity:		
Current ratio	1.76x	1.73x
Solvency:		
Debt-to-equity ratio	0.50x	0.41x

	<b>For the nine months ended 31 Sept</b>	
	<b>2015</b>	<b>2014</b>
Operating efficiency:		
Revenue growth	-4%	19%
Profitability:		
Return on equity	9.3%	10.5%
Return on assets	4.1%	4.0%
<sup>ii</sup> EBITDA margin	7.0%	7.1%

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**

(Nine months ended 30 September 2015 versus 30 September 2014)

183% decrease in Other non-operating expenses (-\$2.4M to -\$1.3M)

Decrease is due to write-off of certain investment in 2014 and lower net interest expense.

26% decrease in Provision for income tax (\$4.3M to \$5.7M)

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

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

## Balance Sheet items

(30 Sept 2015 versus 31 Dec 2014)

### 16% decrease in Cash and cash equivalents (\$117.6M to \$98.7M)

Cash provided by operating activities +\$34.8M from improved profitability; cash used in investing -\$25.8M mainly capital expenditure; cash used in financing mainly due to dividends -\$8.5M, redemptions of Preferred shares - \$28.4M and settlement of finance leases -\$2.3M.

### 28% decrease in Intangible assets (\$4.0M to \$2.9M)

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

### 6% decrease in Accounts payable and accrued expenses (\$182.1M to \$170.5M)

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

The following table sets forth the Company's accrued compensation, benefits and expenses as of 30 September 2015 versus the year ended 31 December 2014:

	2015	2014
Compensation and benefits	\$22,586	\$24,692
Taxes	2,798	5,005
Professional fees	2,470	2,311
Light and water	1,529	1,340
Sales return	859	1,234
Subcontracting costs	699	2,204
Sales commission	552	696
Supplies	1,146	2,613
Interest payable	359	449
Others	10,959	9,819
	<u>\$43,957</u>	<u>\$50,363</u>

### 15% decrease in Trust receipts and loans payable (\$52.1M to \$44.5M)

Payment of short-term loans of IMI Philippines (\$13M) and STEL (\$5.5M), offset by availment of additional \$11M loan.

### 8% increase in Current Portion of Long-term debt (\$2.8M to \$3.0M)

Increase was mainly due to a new availment of long-term loan off set by currency translation adjustment of EUR debt caused by EUR devaluation.

### 31% increase in Long-term debt (\$57.3M to \$75.2M)

Increase was mainly due to a new availment of long-term loan in the Parent off set by currency translation adjustment of EUR debt caused by EUR devaluation and third installment payment of Cooperatief to EPIQ NV of EUR 2M related to the European acquisition.

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

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

### 100% decrease in Appropriation for expansion (\$20.7M to nil)

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

### 32% decrease in Cumulative translation adjustments (-\$10.7M to -\$14.1)

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

Europe subsidiaries' local currencies (BGN and CZK) with regard to its net assets. Local currencies are pegged against EUR which declined by 13%.



**EXHIBIT 1**  
**FINANCIAL RATIOS**  
**For the Period Ended September 30, 2015 and 2014**

**INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES**  
**FINANCIAL RATIOS**  
**September 30, 2015 and 2014**

Ratios	Formula	Sep 30, 2015	Sep 30, 2014	December 31, 2014
(i) Current ratio	Current assets / Current Liabilities	1.76		1.73
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	0.50		0.41
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	2.34		2.26
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	14.48	13.27	
(v) Profitability ratios				
GP margin	Gross Profit / Revenues	11.6%	11.5%	
Net profit margin	Net Income after Tax / Revenues	3.5%	3.2%	
EBITDA margin	EBITDA / Revenues	7.0%	7.1%	
Return on assets	Net Income after Tax / Total Asset	4.1%	4.0%	
Return on equity	Net Income after Tax / Average equity attributable to parent	9.3%	10.5%	
Return on common equity	Net Income after Tax / Average common equity attributable to parent	9.3%	12.0%	

(in US\$'000)

	Sep 30, 2015	Sep 30, 2014	December 31, 2014
Current Assets	390,497		416,009
Current Liabilities	222,065		240,634
Total Assets	533,806	521,675	552,707
Bank Debts	113,497		99,751
Equity attributable to parent	228,010		244,051
Average equity attributable to parent	236,031	201,011	
Average common equity attributable to parent	236,031	174,410	
Revenues	621,479	650,061	
Gross Profit	71,821	74,876	
Net Income after Tax	22,022	21,012	
Earnings before interest and taxes	27,664	28,667	
Interest expense	1,910	2,161	
EBITDA	43,561	46,193	

## PART II--OTHER INFORMATION

1. At the Regular Annual Stockholders' meeting held on April 6, 2015 the stockholders considered and approved the following:

- Election of the following Board of Directors for the ensuing year:

Jaime Augusto Zobel de Ayala  
Fernando Zobel de Ayala  
Delfin L. Lazaro  
Arthur R. Tan  
Delfin C. Gonzalez, Jr.  
John Eric T. Francia  
Rafael Ma. C. Romualdez  
Jose Ignacio A. Carlos  
Alelie T. Funcell (Independent Director)  
Hiroshi Nishimura (Independent Director)  
Edgar O. Chua (Independent Director)

- Appointment of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the ensuing year.

2. In the Organizational meeting held immediately after the Regular Annual Stockholders' meeting, the Board of Directors elected the following:

- Board Committees and Memberships:

Executive Committee

Delfin L. Lazaro – Chairman  
Rafael Ma. C. Romualdez – Vice Chairman  
Arthur R. Tan – Member

Audit Committee

Edgar O. Chua – Chairman  
Rafael Ma. C. Romualdez – Member  
Delfin C. Gonzalez, Jr. – Member

Nomination Committee

Fernando Zobel de Ayala – Chairman  
Jose Ignacio A. Carlos – Member  
Alelie T. Funcell – Member

Compensation Committee

Jaime Augusto Zobel de Ayala – Chairman  
Delfin L. Lazaro – Member  
Rafael Ma. C. Romualdez – Member

Finance Committee

Delfin C. Gonzalez, Jr. – Chairman  
John Eric T. Francia – Member  
Rafael Ma. C. Romualdez – Member  
Hiroshi Nishimura - Member

Proxy Validation Committee

Solomon M. Hermosura. – Chairman

Jaime G. Sanchez – Member

Neilson C. Esguerra – Member

• Officers:

Jaime Augusto Zobel de Ayala

Arthur R. Tan

Jerome S. Tan

Linardo Z. Lopez

Gilles Bernard

Anthony Raymond P. Rodriguez

Jaime G. Sanchez

Solomon M. Hermosura

Charlene Mae C. Tapic-Castro


- Chairman of the Board
- President & Chief Executive Officer
- Global Chief Finance Officer / ICT
- Senior Managing Director, Global Head of Materials Management
- Senior Managing Director – COO Asia & Europe
- AVP, Head of Treasury and Credit
- VP and Compliance Officer
- Corporate Secretary
- Assistant Corporate Secretary

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant      **INTEGRATED MICRO-ELECTRONICS, INC.**

By:



JAIME G. SANCHEZ  
Vice President, Deputy CFO and Group Controller

Date: November 10, 2015



JEROME S. TAN  
Chief Finance Officer

Date: November 10, 2015